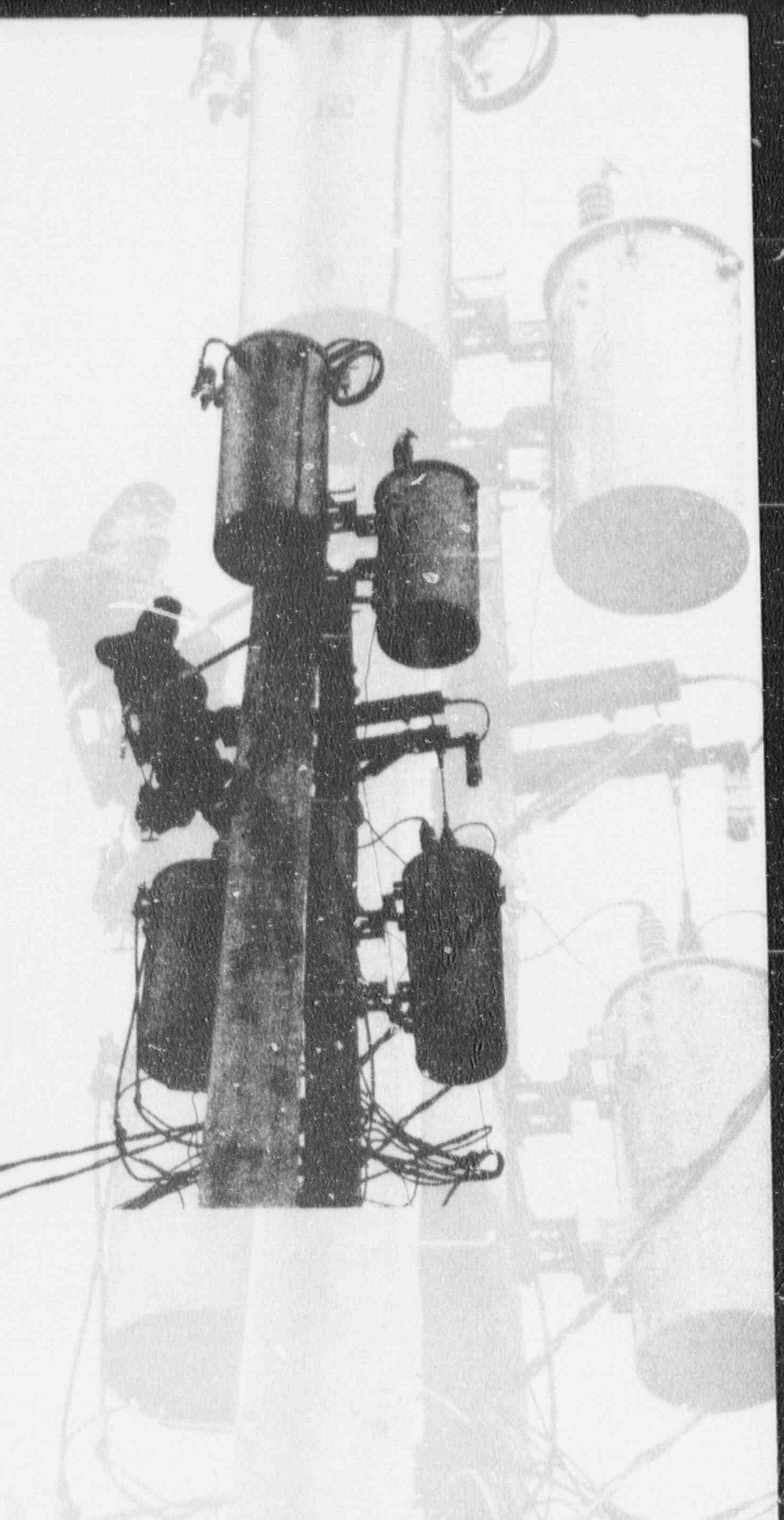
CENTERIOR ENERGY

ANNUAL REPORT 1990



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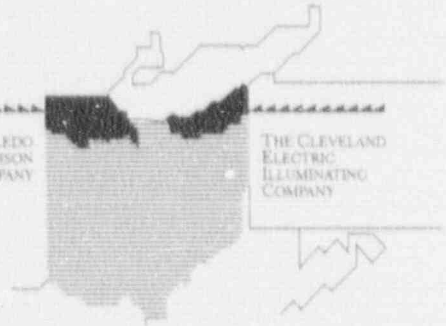

Centerior Energy Corporation was formed in April 1986 upon the affiliation of The Cleveland Electric Illuminating Company and The Toledo Edison Company. With assets of nearly $12 billion, Centerior Energy is one of the largest electric utility systems in the nation. The Centerior operating companies serve 2.6 million people in a combined service area of 4,200 square miles in Northern Ohio. Centerior Energy is an equal opportunity employer.

1990 Highlights

• A comprehensive management audit completed in April identified the potential for nearly $100 million in annual savings.

• A corporate-wide restructuring and downsizing resulted in a 9% reduction in employees through early retirement and voluntary severance and a 27% reduction in top management.

• The second of three scheduled rate increases under a January 1989 rate agreement went into effect on February 1, 1990. The third rate increase became effective on February 1, 1991.

• Perry Unit 1 set a record for nuclear reactors of its type during a second fuel cycle when it reached 232 days of continuous generation prior to starting a refueling and maintenance outage on September 7. The unit returned to service on January 4, 1991.

• Beaver Valley Unit 2 completed 354 days of consecutive operation in July. The unit started a refueling and maintenance outage on September 4 and was back in service on November 22.

• Except for a two-day interruption, through mid-February 1991 the Davis-Besse Nuclear Power Station has run continuously since returning to service on July 5 from a refueling and maintenance outage.

Contents

As this Annual Report was in preparation, the United States and its allies were at war with Iraq.

This conflict has interrupted the careers of several employees of Centerior Energy and affected the lives of many of our share owners, customers and their families.

Those serving in this war have our thanks for their priceless contribution and our prayers for a safe return.

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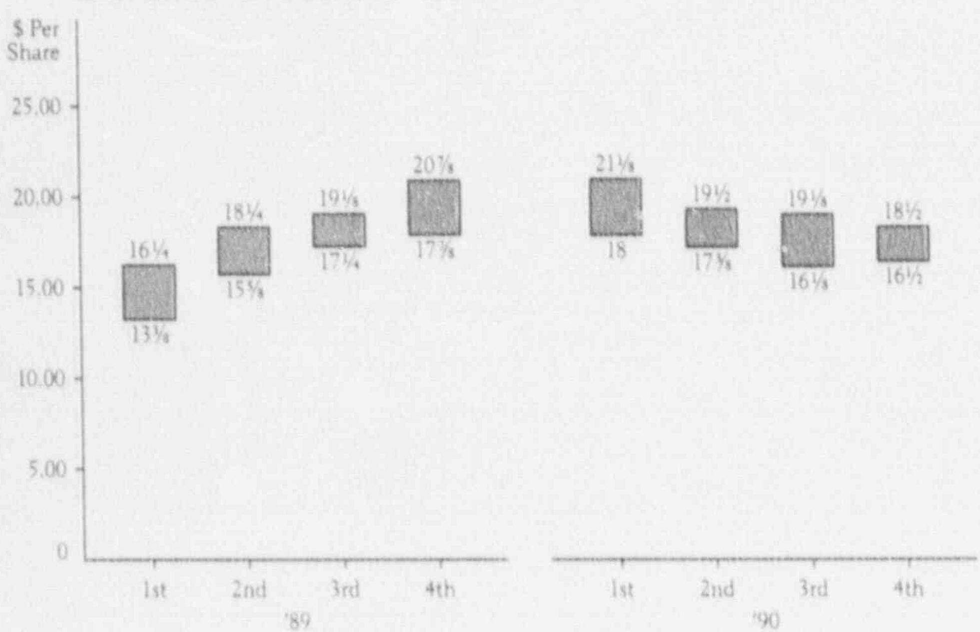
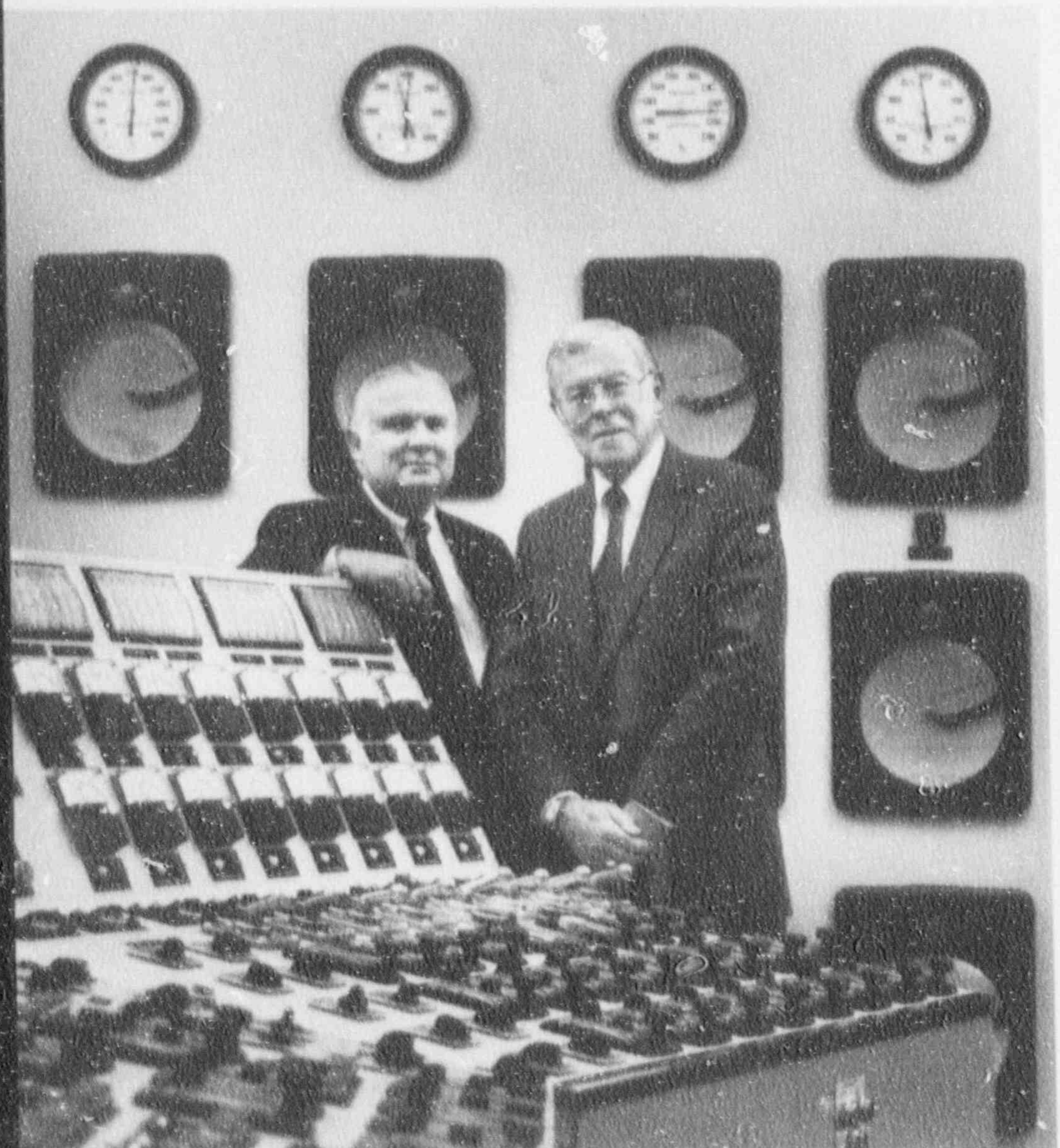
FINANCIAL SUMMARY

	1990	1989	% Change
Earnings Per Share of Common Stock	$ 1.90	$ 1.90	—
Dividends Declared Per Share of Common Stock	$ 1.60	$ 1.60	—
Book Value Per Share of Common Stock at Year End	$ 20.30	$ 19.99	1.6
Closing Common Stock Price at Year End	$ 18	$ 20⅝	(12.7)
Common Stock Share Owners at Year End	183,723	194,016	(5.3)
Common Stock Shares Outstanding at Year End (000)	138,401	139,792	(1.0)
Operating Revenues (000)	$2,367,675	$2,302,436	2.8
Operating Expenses (000)	$1,863,099	$1,870,505	(0.4)
Net Income (000)	$ 264,459	$ 266,886	(0.9)
Return on Average Common Stock Equity	9.4%	9.6%	(2.1)
Kilowatt-hour Sales (Millions of Kilowatt-hours)			
Residential	6,666	6,806	(2.1)
Commercial	6,848	6,830	0.3
Industrial	12,168	12,520	(2.8)
Other	1,107	1,425	(22.3)
Total	26,789	27,581	(2.9)
Employees at Year End	8,517	9,062	(6.0)

QUARTERLY RANGE OF COMMON STOCK PRICES





DEAR

SHARE

OWNER:

Robert J. Farling *Richard A. Miller*

Nineteen-ninety was a year of exceptional change for us as we worked to place the Company in a stronger position to achieve long-term enhancement of your investment.

A management audit completed in 1990 helped us achieve a major restructuring and downsizing of our organization and a system-wide consolidation of our operations. We took a long, hard look at ourselves through this audit, with the goal of becoming a more cost-effective organization, better attuned to compete successfully in the evolving energy market.

Improvement of our financial position remains the primary focus of our energies. We still are recovering, as are many utilities, from a demanding nuclear construction program carried out during years of soaring inflation in the latter part of the 1970s and much of the 1980s. We made progress toward financial improvement in 1990 and the dividend remained secure. In 1990, as in 1989, the quality of earnings remained well above that of several prior years when noncash accounting credits were higher.

We are dedicated to improving the value of your investment. We expect inflation to put upward pressures on operating expenses during the next several years. However, we must keep our electricity prices reasonable in today's increasingly competitive energy market. To achieve satisfactory earnings per share under these conditions, we have made cost control our top priority.

The management audit helped us identify the potential for nearly $100 million in annual savings in expenses. We already have implemented many of the recommendations and expect to have most of the rest in place this year. We are firmly committed to realizing—and ultimately exceeding—the full savings goal.

Our nuclear and coal-fired units performed well in 1990. About 44% of our generation in 1991 is expected to come from nuclear energy, which has a lower fuel cost than coal-fired generation. The Clean Air Act of 1990 contains much of the flexibility we long had urged, thus permitting us to meet the new emission standards prescribed for coal-fired units with minimal impact on electric rates.

We are determined to meet changing customer needs and to maintain high-quality service—and to do so at lower cost. We are working to make our rates more competitive in the Toledo Edison area, thus mitigating local interest in municipalization of electric service. We are developing demand-side management programs to help customers of Cleveland Electric and Toledo Edison attain greater control over energy usage and costs and, in turn, afford us better use of existing facilities.

The current recession has had some impact on the Northern Ohio economy which limits our expectations for sales and revenue gains in the short term. However, this recession bears little resemblance to the far more severe recession of the early 1980s which caused many factory closings, severe unemployment and other economic hardships throughout the nation's industrial heartland. That recession prompted many local industries to streamline operations and become more efficient. The end result is a much stronger industrial base in Northern Ohio today. Large capital investments by our business and industrial customers demonstrate their continuing confidence in the region we serve.

The text of this Report parallels the three sectors of our restructured corporate organization—Finance & Administration, Power Generation and Customer Operations. All three sectors are firmly committed to ongoing cost control, quality service to customers and improved return for investors.

Sincerely,

Richard A. Miller

Richard A. Miller,
Chairman

Robert J. Farling

Robert J. Farling,
President

February 18, 1991

Edgar H. Maugans, Executive Vice President

FINANCE & ADMINISTRATION: REBUILDING OUR STRENGTH

RATE INCREASE EFFECTIVE

On February 1, 1991, we implemented the last of three annual rate increases authorized in the rate agreement negotiated with customer representatives and approved by The Public Utilities Commission of Ohio (PUCO) in January 1989. The rate increases were part of a 10-year phase-in plan designed to provide us the opportunity to earn a fair return on our allowable investment in two nuclear units, Unit 1 of our Perry Nuclear Power Plant and Unit 2 of the Beaver Valley Power Station.

As a result of the agreement, Cleveland Electric and Toledo Edison had general rate increases of 9% effective February 1, 1989 and 7% effective February 1, 1990. The 1991 increase was nominally set at 6%, subject to adjustment based on the outcome of a comprehensive management audit completed in 1990.

We agreed to share equally with customers and share owners the savings expected to result from the audit. Consequently, the rate increase effective February 1, 1991 was reduced to 4.35% for Cleveland Electric customers and 2.74% for Toledo Edison customers. This reduction from the nominal 6% amount reflects half of the projected audit-related savings, nearly $50 million. The rate impact is different for customers of our two operating companies because much of the savings will be achieved in areas such as nuclear operations in which Toledo Edison stands to achieve greater savings relative to its size.

As discussed later in this Report, we did not apply the 2.74% rate increase to many residential and small commercial customers in the Toledo Edison service area. Additionally, these same residential customers will have their rates reduced 4% by year end. Toledo Edison's rates generally are higher than those of Cleveland Electric and those available from the competition. We concluded that a rate reduction was appropriate to levelize rates throughout the Centerior Energy system, consistent with our efforts to operate increasingly as one company, and to retain and increase our sales and load.

THE FINANCIAL CHALLENGE

The 1989 rate agreement and the resulting rate increases helped improve our cash flow and the quality of earnings. As a consequence, the agreement put us on more solid footing with the investment community.

The agreement includes a complex set of provisions regarding recovery of deferrals and carrying charges that will tend to constrain our reported earnings through much of this decade. Competitive pressures limiting rate increases and inflationary pressures on costs make it all the more challenging to achieve satisfactory earnings.

We intend to meet that challenge. Aiding our efforts are about $100 million in cost savings expected to be realized from the management audit. Customers already have been guaranteed their half of the sav-

ings through the reduction in the 1991 rate increase. Share owners will benefit as the remaining savings help to offset increases in costs and rate reductions in the Toledo Edison service area. We are committed to achieving the full cost reduction and to realizing additional savings through ongoing cost control.

AUDIT IMPLEMENTATION PROGRESSING

The management audit resulted in some 325 separate recommendations, many of which already are in effect. Most of the remaining recommendations are to be implemented in 1991.

The audit called for reducing our number of employee positions by nearly 800 from the early 1989 base of about 9,200. Most of this reduction was accomplished through attrition and through early retirement and voluntary severance programs completed in 1990. Additionally, we are eliminating about 1,200, or 80%, of our contractor positions. We have consolidated our operating units, Cleveland Electric and Toledo Edison, and Centerior Service Company into a single, tightly knit organization. This allowed us to reduce the number of top management positions from 85 to 62.

We closed four service centers after determining this would not negatively impact customer service. We centralized our materials management system for greater cost control. We are working to simplify operating procedures and centralize responsibilities in every area of the Company.

Corporate management audits and restructurings are not unusual in today's demanding business climate. But ours was exceptionally comprehensive. Our audit included participation from customer representatives and other intervening parties rather than remaining completely under management control, as is customary for corporate audits.

Integral to the audit process was our insistence that audit recommendations do nothing to lessen the reliability of our service or compromise the safety of our employees or the public. These conditions are being met. Our employees continue their traditionally solid job performance and dedication to customer service despite tight cost controls and a reduced workforce. They are making the audit implementation work.

STEMMING EARNINGS EROSION

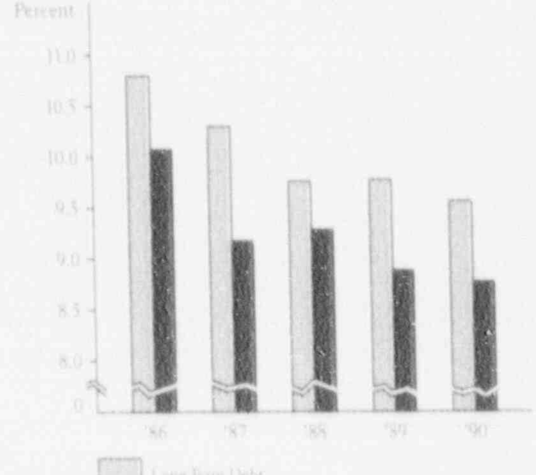
Earnings are being eroded by two factors, one of which relates to depreciation of nuclear plant and the other to accounting for facilities placed in service since February 1988. To stem this erosion, we are requesting two accounting orders from the PUCO.

Approval of the first request would enable us to accrue depreciation on a straight-line basis and in an amount which more closely aligns with the amount recovered in rates. Because of the good performance of our nuclear units over the last several years, the units-of-production method which we are currently using has penalized us by requiring a greater depreciation charge than we are allowed to collect from customers. Straight-line depreciation for nuclear units is more traditional in the utility industry, and we believe it is now appropriate for us. If we are not allowed to use the accounting treatment sought in this request, 1991 earnings would be reduced by as much as $58 million, or 42 cents per share, depending on the performance of the units.

Approval of the other request would allow us to defer depreciation on new facilities in service but not yet in rate base and to record carrying charges on this investment. Assets placed in service after February 1988 currently earn no return and will not until the PUCO allows them in rate base. This request, if granted, would give us an "IOU" for future cash recovery in exchange for our delaying rate increase requests. If we are not allowed to use this proposed accounting treatment, earnings would be reduced by up to $36 million, or 26 cents a share, in 1991, and even more in subsequent years.

Refinancing activities also are contributing to cost reductions and earnings. In 1990, we refinanced $167 million of high-cost debt and preferred stock for a net annual savings of more than $3.6 million in interest costs and preferred dividends. Additionally, under a forward refunding agreement, we will reduce reported interest expense some $3 million a year in 1991 and 1992. Potential refinancings in 1991 through mandatory and optional redemption provisions represent about $5 million in savings a year.

EMBEDDED COSTS OF LONG-TERM DEBT AND PREFERRED STOCK



Murray R. Edelman, Executive Vice President

Power Generation: Our Power Base

PLANT PERFORMANCE OUTSTANDING

Our nuclear capabilities, combined with our fossil strength, give us adequate generating capacity to meet current demand and expected modest load growth through most of this decade.

Perry Unit 1, in which we have a 51% ownership, achieved a 97% availability rating over the 13-month period preceding a refueling and maintenance outage which started September 7, 1990. Perry resumed operations on January 4, 1991 and has run well since.

The Davis-Besse Nuclear Power Station, owned 100% by us, underwent a refueling and maintenance outage starting January 29, 1990. During this outage, we completed the last of the series of extensive upgrades started in 1985. The plant returned to service on July 5, 1990 and has since generated electricity continuously, except for a two-day interruption, for a 98.7% availability record.

Beaver Valley Unit 2, in which we have a 44% interest, achieved a 93% availability rating during the 13-month period preceding a refueling and maintenance outage which started September 4, 1990. During that period, the unit completed a record-breaking 354-day continuous run. Beaver Valley 2 was back in service on November 22, 1990 and has continued its good performance.

All three nuclear units received favorable reports in the rigorous Systematic Assessment of Licensee Performance evaluations carried out by the Nuclear Regulatory Commission. We are pleased with the performance of our units in 1990, but we are not satisfied. We continue making every effort to ensure the best operating practices and highest achievable degree of safety.

The performance of our coal units in 1990 also was impressive. They achieved a combined availability rating above 80%. Unit 9 at the Avon Lake Plant, a 580,000-kilowatt unit, achieved a 170-day continuous run, the longest in its 20-year history. The Bay Shore Station continued its traditionally strong performance. The 215,000-kilowatt Unit 4 topped its 1989 efficiency performance which had ranked it among the top 20 coal-fired units in the nation.

In 1990, control of all generating units operated by Cleveland Electric and Toledo Edison was consolidated in a single facility, the Centerior System Operations Center. This consolidation translates into optimum efficiencies and cost savings in the economic dispatch of electric power. The consolidation also facilitates power transactions with other utilities. In 1990, such transactions added about $25 million in excess revenues over costs. We are working to do as well, or better, in 1991.

Centerior Environmental Policy

1. All forms of energy conversion and utilization, including the generation, transmission and use of electricity, have some impact on the environment. Centerior Energy works to balance its stewardship of natural resources with society's need for a reliable supply of electric power at reasonable cost to maintain health, safety and a desirable standard of living.

2. Among our prime corporate objectives is conformance with all laws and regulations relating to our impact on the air, the water, the land and their inhabitants.

3. We maintain corporate monitoring programs to ensure that we meet our own standards and those of regulatory agencies. Employees are encouraged to bring environmental concerns to management's attention. When environmental incidents occur, we move quickly to take remedial action.

4. Environmental considerations are an integral part of all of our planning and decision-making.

5. We endeavor to use nature's resources efficiently. We seek ways to recycle materials and reduce waste. By-products of electric energy production and utilization are handled safely and disposed of responsibly.

6. We work cooperatively with customers, with community groups and with local, state and federal authorities to analyze environmental needs on a scientific basis and to develop balanced responses. We communicate clearly and promptly on environmental issues of concern.

7. We employ integrated resource planning and demand-side management to improve the efficiency with which we produce electric power and with which our customers use it in their homes, businesses and factories, thus moderating the environmental impact of electric power production. We inform customers through many communication channels about ways to conserve electric energy.

8. We support the research and development of generating technologies and energy-efficient systems which promise enhanced safekeeping of the environment while maintaining our modern way of life.

ENVIRONMENTAL COMMITMENT

Centerior takes pride in its historic commitment to the environment. We installed pollution control devices at our power plants as early as the 1920s, long before such devices were mandated by the government. In the past two decades, we have spent approximately $1 billion on environmental improvement. A significant portion of customer bill payments today represents a contribution to a cleaner environment.

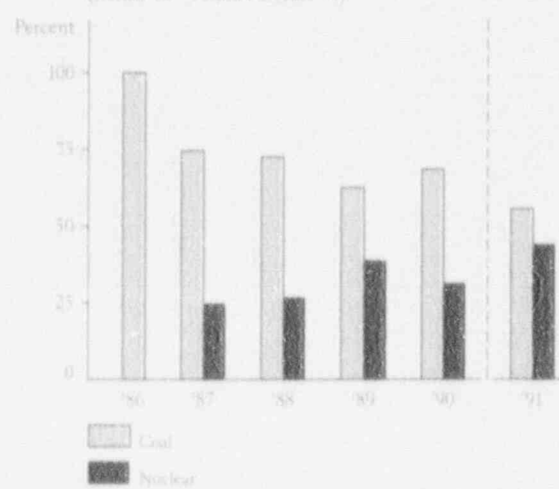
Late last year, Congress passed the Clean Air Act of 1990. For more than a year before enactment of the legislation, we had been exploring possible strategies to further reduce sulfur dioxide emissions at our coal-fired power plants at the lowest possible cost. We are favorably positioned to meet the new emission standards with minimal impact on the rates we charge customers.

Between 1977 and 1989, we reduced sulfur dioxide emissions by 50%, from about 600,000 tons a year to 300,000 tons a year. The new legislation requires a further cut of 180,000 tons by the year 2000.

To achieve that reduction, we are preparing a balanced strategy that includes several possibilities, such as increased use of low-sulfur coal and repowering of some units with clean-coal technologies or gas co-firing. Another possibility is installation of scrubbers at one or more generating units. Scrubbers are large-scale chemical treatment facilities that cleanse sulfur dioxide from plant stack emissions.

We estimate that achieving the required sulfur dioxide reductions could cost $400-$700 million in capital spending over the next 10 years. This capital cost could be recovered through a one-time rate increase in the range of 2-4% in the late 1990s and another after 2000 for a total increase of 7-8%. Overall, these increases, spread over a 10-year period, would average less than 1% a year.

FUEL MIX
(Actual '86–'90 and Forecast '91)



Lyman C. Phillips, Executive Vice President

Customer Operations: The Competitive Edge

THE COMPETITION

We value our customers and take very seriously our responsibility to provide them reliable electric service at reasonable cost. We are always working to improve our relations with customers and increase their satisfaction. As we work to make our electric rates more competitive, we also are helping customers achieve better energy value.

We compete with natural gas suppliers, other electric utilities and independent power producers. Our most serious competitive concern today is the risk of new municipal systems taking away our customers. Interest in municipalization is particularly strong in the Toledo Edison service area in Northwest Ohio.

Toledo Edison's electric rates at this time are significantly higher than those in surrounding communities served by other power sources, including municipal utilities. Most of these municipal systems import lower-cost power currently available in the wholesale market and distribute it to their customers. Municipal systems have a further price advantage because they pay no federal, state or local taxes.

The supply of lower-cost power is expected to diminish as compliance with the Clean Air Act of 1990 reduces available capacity and as the growing demand for electricity reduces available excess supply. We expect municipal systems to lose much of their competitive advantage as wholesale power supplies dwindle and the price climbs.

In the meantime, we are working with customers and municipalities to become more competitive in Northwest Ohio.

RATE REDUCTION NEGOTIATIONS

In 1990, we began negotiating ordinances with individual municipalities in the Toledo Edison service area. Under these municipal ordinances, Toledo Edison is retained as sole electricity supplier for a five-year period. In return, residential and small commercial customers in those municipalities avoided the 2.74% rate increase that went into effect on February 1, 1991. Additionally, residential customers receive a 3% rate reduction on March 1, 1991 and a 1% reduction on September 1, 1991.

Further, residential and small commercial customers in those municipalities are assured of no rate increases before 1996 unless high inflation or emergency conditions necessitate a rate adjustment. As an added incentive, we are making economic assistance funds available to these municipalities. The level of assistance is tailored to meet individual community needs to promote economic development.

At this writing, we have achieved sole-supplier contracts with all of the 48 incorporated municipalities served exclusively by Toledo Edison except for the largest, the City of Toledo.

On January 31, 1991, we announced our intent to seek PUCO approval to roll back the 2.74% rate increase for all residential and small commercial customers in the City of Toledo and the rest of Toledo Edison's service area and to apply the additional 4% rate reduction to these residential customers by year end. This action would extend our rate-reduction benefits throughout the Toledo Edison service area, thus ensuring that Toledo area customers are treated uniformly.

We estimate that, with the entire Toledo Edison service area participating, these rate reductions would reduce our annual revenues by about $17 million, which represents 0.75% of 1990 revenues. We have concluded that it is in our share owners' best long-term interests to accept this modest reduction in revenues in order to maintain our Toledo Edison customer base.

In the Cleveland Electric service area, Cleveland Public Power (CPP) continues its $50 million expansion into the eastern part of Cleveland. CPP's kilowatt-hour sales equal about 2.5% of Centerior's. The expansion, as now planned, could take away about 20,000 of our customers, primarily residential users, over the next several years. This could reduce revenues by about $10 million although there would be partially offsetting reductions in operation expenses and taxes. We have retained large commercial and industrial customers in Cleveland despite CPP's expansion efforts, primarily because of our higher level of reliability. In January 1991, we announced plans for a new, $28 million substation complex to provide service needed for downtown Cleveland business expansion, further evidence of our commitment to service reliability and economic development.

In November 1990, Cleveland voters approved a charter amendment allowing transfer of tax monies to support municipal utility departments, including CPP. Such transfers in years past, without legal authorization, led to our taxpayers' lawsuit against the City of Cleveland and a court decision in 1990 ordering the City to make repayment with interest to its general fund. The City has submitted a 10-year payment plan totaling $47 million, but the payment issue is still under appeal by both parties.

DEMAND-SIDE MANAGEMENT

In 1989, the PUCO issued guidelines for Integrated Resource Planning, requiring electric utilities throughout the state to investigate both supply-side and demand-side measures in planning the most cost-effective means to meet future electricity needs.

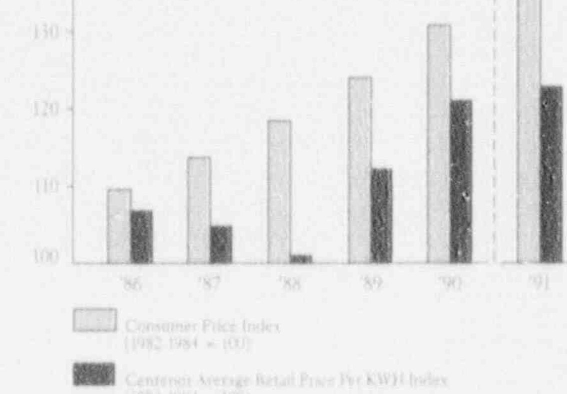
The traditional supply-side response to growth in electricity consumption is to build new power plants. In contrast, demand-side measures are designed to encourage customers to conserve and to shift some of their energy consumption from high-use to low-use periods. This would slow peak demand growth and delay the need for new facilities.

We launched several successful demand-side management programs in 1990. We anticipate spending about $85 million through the year 2000 for further initiatives.

Demand-side management programs permit customers to achieve greater control over their electricity usage and realize price advantages. Utilities and their investors, in turn, benefit from the more efficient and cost-effective use of existing generation and transmission facilities. We estimate the demand-side programs we have planned for the 1990s will enable us to defer for several years capital outlays of up to $1 billion for new facilities.

As we attempt to change customer usage patterns, we are focused on three applications—*valley filling*, encouraging new off-peak load such as

AVERAGE RETAIL PRICE PER KWH COMPARED TO THE CONSUMER PRICE INDEX*
(Actual '86 - '90 and Estimated '91)



*Preliminary CPI for 1990 and estimated 1991

security lighting; *strategic conservation*, exemplified by high-efficiency industrial motors and energy-efficient lighting; and *peak shaving*, which includes various energy-management systems such as cooling and heating storage systems.

Our goal is to reduce system peak by 300,000 kilowatts from what it otherwise would be by the year 2000. Correspondingly, we hope to increase off-peak sales by 400 million kilowatt-hours by the year 2000. That would give us a modest sales increase while delaying the need for new generating capacity that easily could cost 10 times our demand-side investment.

THE CUSTOMER CONNECTION

In 1990, we launched a system-wide Total Quality process to help us better identify and meet customer needs. The Total Quality concept will instill continuous improvement as a prime component of our corporate culture. This valuable tool has been applied successfully at many top corporations in the nation.

The Total Quality approach represents a more focused effort than our past emphasis on quality work. A major component will be emphasis on better communications, especially from employees to management. Our service crews, plant operators, customer representatives and other people on the line know best what needs to be done to improve customer service and make operations safer and more cost-effective. We are listening to our employees.

Our three Consumer Advisory Panels established in 1989 meet regularly and keep us attuned to a broad range of customer views. Members include senior citizens, business people, industrial workers, homemakers and teachers. Also providing perspective is the additional input from the Cleveland Electric and Toledo Edison management advisory councils, composed of business and community leaders. We are listening to our customers.

Through a Centerior program, customers contributed $175,000 in 1990 to assist low-income customers with bill payments, appliance repair and weatherization. We matched that amount. In addition, we made further contributions, including one-time grants, which raised our total donation to more than $600,000. These customer assistance programs have raised community awareness of Cleveland Electric and Toledo Edison as caring corporate citizens, and we are gratified by the outstanding level of contributions from customers.

A redesigned, comprehensive billing statement is now providing Cleveland Electric customers with more information about their electricity usage to help them practice wise energy management. The redesigned bill will become available to Toledo Edison customers this spring. Customer surveys and a variety of targeted customer communications are additional means through which we are determining and responding to customer needs.

ECONOMIC OUTLOOK IN NORTHERN OHIO

Our projections for the next several years indicate annual kilowatt-hour sales growth will average about 2%. Achieving this increase assumes normal weather and depends on the economy and other factors. Through the rest of this decade, we expect more moderate sales increases, averaging about 1.5% a year.

Our diversified industrial base includes steel, autos, plastics, chemicals, polymers, glass, petroleum refining and other manufacturing. We have felt the nationwide decline in auto and steel production, but many of the other industries we serve continue to do well. Several industrial expansions are planned or in the works, which will help offset the sales losses anticipated from other industrial customers.

In the Cleveland Electric area, LTV Steel's new continuous annealing line and an electric metallurgy station should be operational in the first half of 1991. This means 45,000 kilowatts in new load and $8 million in additional revenue a year, helping to offset some kilowatt-hour sales losses from the temporary shutdown of LTV's electric arc furnaces. In the auto sector, Ford Motor, in a joint venture with Nissan, will complete the addition of a new van production facility in 1992 at its plant west of Cleveland, for an additional 17,000 kilowatts and $5 million in annual revenue.

In the Toledo Edison area, our economic development electric rates established late in 1989 have helped encourage 34 industrial customers of various sizes to make $61 million of capital investment, retain or create 1,400 jobs and add 18,000 kilowatts of new load. Chrysler has signed labor agreements permitting its Jeep Assembly Plant, the largest employer in Toledo, to remain viable at least through 1996. The firm plans to move its Jeep Wrangler YJ production from Canada to Toledo starting in 1992. Manville Corporation has invested $65 million in new fiberglass manufacturing equipment which will become operational in the first half of 1991. General Motors is spending $225 million to update its Hydra-Matic transmission production line in Toledo.

In the Cleveland Electric commercial sector, retail and office expansions have contributed to solid sales growth in the past several years, and more growth is on the horizon. As the downtown Cleveland building boom continued in 1990, major new all-electric customers included the completed Tower City Center, the adjacent Ritz-Carlton Hotel and the Western Reserve Building. In total, we began serving some 2.4 million square feet of new, all-electric office space in Cleveland and its suburbs in 1990.

Commercial sales growth has not been as uniformly strong in the Toledo Edison area. Portside, the large shopping and dining complex on Toledo's riverfront, was closed in 1990. Efforts are under way to revive the complex, possibly as a museum of science and industry. Planned commercial expansions include the Franklin Park Mall, another of the city's prime shopping sites. In addition, Burlington Air Express' new international cargo center is due for completion this year at Toledo Express Airport, underscoring Toledo's reputation as a transportation hub in the Midwest.

In the residential sector, the moderate weather prevailing in both the summer and winter led to a 2% decline in kilowatt-hour sales in 1990. Assuming normal temperatures in 1991, sales are expected to rebound. Use of electric heating and cooling in new home construction is on the rise, largely through our marketing efforts. In the Toledo Edison area, for example, some 40% of new multi-family dwellings in 1990 were all-electric. In the Cleveland Electric area, the add-on heat/cool pump represented 36% of all cooling units in new home construction, a big gain over the 9% market share of 1989.

OUR CORPORATE COMMITMENTS

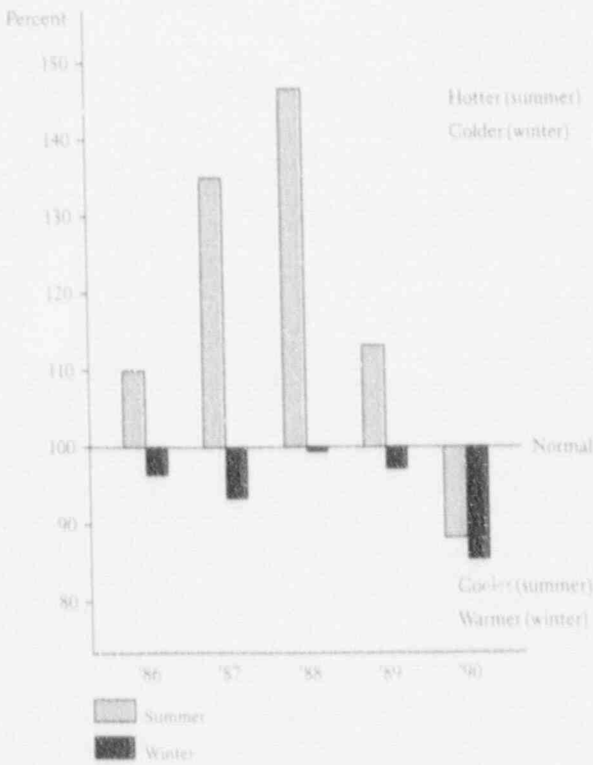
We serve more than one million customers and we value each one of them. We are dedicated to providing them with high-quality and reliable energy services while maintaining responsible stewardship of the environment.

We count on our 8,500 employees to help us carry out this mission. As always, they are this company's most important resource. Aided by their commitment to cost control, we expect to keep future price increases below the rate of inflation and below those of neighboring utilities, thus strengthening our competitive position.

We are responsible to the more than 180,000 share owners who make it possible for us to produce and deliver electric service. We are pledged to increasing the value of share owner investment and enhancing the financial integrity of the company.

The management audit and the corporate restructuring have given us new vigor. We believe these measures, coupled with our Total Quality commitment, give us a solid foundation for meeting the challenges of today and of the years to come.

WEATHER DEVIATION FROM NORMAL*



*Cleveland data

Management's Statement of Responsibility for Financial Statements

The management of Centerior Energy Corporation is responsible for the consolidated financial statements in this Annual Report. The statements were prepared in accordance with generally accepted accounting principles. Under these principles, some of the recorded amounts are based on estimates which are, in turn, based on an analysis of the best information available.

We maintain a system of internal accounting controls which is designed to assure that the financial records are substantially complete and accurate. The controls also are designed to help protect the assets and their related records. We try to ensure that the costs of our control procedures do not exceed their benefits.

Our internal audit program monitors the internal accounting controls. This program gives us the opportunity to assess the adequacy and effectiveness of existing controls and to identify and institute changes where needed. In addition, an examination of our financial statements is conducted by Arthur Andersen & Co., independent accountants, whose report appears below.

Our Board of Directors is responsible for determining whether management and the independent accountants are carrying out their responsibilities. The Board is also responsible for making changes in management or independent accountants if needed.

The Board has appointed an Audit Committee, comprised entirely of outside directors, which met three times in 1990. The Committee recommends annually to the Board the firm of independent accountants to be retained for the ensuing year and reviews the audit approach used by the accountants plus the results of their audits. It also oversees the adequacy and effectiveness of our internal accounting controls and ensures that our accounting system produces financial statements which present fairly our financial position.

E. H. Maugans

E. H. Maugans
Executive Vice President and Chief Financial Officer

Paul G. Busby

Paul G. Busby
Controller and Chief Accounting Officer

Report of Independent Public Accountants

To the Share Owners and Board of Directors of Centerior Energy Corporation:

We have audited the accompanying consolidated balance sheet and consolidated statement of cumulative preferred and preference stock of Centerior Energy Corporation (an Ohio corporation) and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Centerior Energy Corporation and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As discussed further in the Summary of Significant Accounting Policies and Notes 7 and 12, a change was made in the methods of accounting for income taxes and unbilled revenues in 1988, retroactive to January 1, 1988.

As discussed further in Note 3(c), the future of Perry Unit 2 is undecided. Construction has been suspended since July 1985. Various options are being considered, including resuming construction or canceling the unit. Management can give no assurance when, if ever, Perry Unit 2 will go in service or whether the Company's investment in that unit and a return thereon will ultimately be recovered.

Cleveland, Ohio
February 12, 1991

Arthur Andersen & Co.

Summary of Significant Accounting Policies

GENERAL

Centerior Energy Corporation (Centerior Energy) is a holding company with two electric utilities as subsidiaries, The Cleveland Electric Illuminating Company (Cleveland Electric) and The Toledo Edison Company (Toledo Edison). The consolidated financial statements also include the accounts of Centerior Energy's other wholly owned subsidiary, Centerior Service Company (Service Company), and Cleveland Electric's wholly owned subsidiaries. The Service Company provides, at cost, management, financial, administrative, engineering, legal and other services to Centerior Energy, Cleveland Electric and Toledo Edison. Cleveland Electric and Toledo Edison (Operating Companies) operate as separate companies, each serving the customers in its service area. The first mortgage bonds, other debt obligations and preferred stock of the Operating Companies continue to be outstanding securities of the issuing utility. All significant intercompany items have been eliminated in consolidation.

Centerior Energy and the Operating Companies follow the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by The Public Utilities Commission of Ohio (PUCO). The Service Company follows the Uniform System of Accounts for Mutual Service Companies prescribed by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935.

The Operating Companies are members of the Central Area Power Coordination Group (CAPCO). Other members include Duquesne Light Company (Duquesne), Ohio Edison Company (Ohio Edison) and Pennsylvania Power Company (Pennsylvania Power). The members have constructed and operate generation and transmission facilities for the use of the CAPCO companies.

REVENUES

Customers are billed on a monthly cycle basis for their energy consumption based on rate schedules or contracts authorized by the PUCO or on ordinances with individual municipalities. Effective January 1, 1988, the Operating Companies changed their method of accounting to accrue the estimated amount of unbilled revenues (as defined in Note 12) at the end of each month.

A fuel factor is added to the base rates for electric service. This factor is designed to recover from customers the costs of fuel and most purchased power. It is reviewed semiannually in a hearing before the PUCO.

FUEL EXPENSE

The cost of fossil fuel is charged to fuel expense based on inventory usage. The cost of nuclear fuel, including an interest component, is charged to fuel expense based on the rate of consumption. Estimated future nuclear fuel disposal costs are being recovered through the base rates.

The Operating Companies defer the differences between actual fuel costs and estimated fuel costs currently being recovered from customers through the fuel factor. This matches fuel expenses with fuel-related revenues.

PRE-PHASE-IN DEFERRALS OF OPERATING EXPENSES AND CARRYING CHARGES

The PUCO authorized the Operating Companies to record, as deferred charges, operating expenses (including lease payments, depreciation and taxes) and interest carrying charges for Beaver Valley Power Station Unit 2 (Beaver Valley Unit 2) from its commercial-in-service date in November 1987 through December 1988. After the PUCO determined that Perry Nuclear Power Plant Unit 1 (Perry Unit 1) was considered "used and useful" in May 1987 for regulatory purposes, the PUCO authorized the Operating Companies to defer operating expenses (including depreciation and taxes) for Perry Unit 1 from June 1987 through December 1987, when these costs began to be recovered in rates. The PUCO also authorized the deferral of interest and equity carrying charges, exclusive of those associated with operating expenses, for Perry Unit 1 from June 1987 through December 1987 and the deferral of only interest carrying charges from January 1988 through December 1988. The amounts deferred for Perry Unit 1 pursuant to these PUCO accounting orders were included in property, plant, and equipment through the commercial-in-service date in November 1987. Subsequent to that date, amounts deferred for Perry Unit 1 were recorded as deferred charges. Amortization of these Beaver Valley Unit 2 and Perry Unit 1 deferrals (called pre-phase-in deferrals) began in January 1989 in accordance with the January 1989 PUCO rate orders discussed in Note 6. The amortizations will continue over the lives of the related property.

PHASE-IN DEFERRALS OF OPERATING EXPENSES AND CARRYING CHARGES

As discussed in Note 6, the January 1989 PUCO rate orders for the Operating Companies included approved rate phase-in plans for their investments in Perry Unit 1 and Beaver Valley Unit 2. On January 1, 1989, the Operating Companies began recording the deferrals of operating expenses and interest and equity carrying charges on deferred rate-based investment pursuant to the phase-in plans. These deferrals (called phase-in deferrals) will be recovered by December 31, 1998.

DEPRECIATION AND AMORTIZATION

The cost of property, plant and equipment, except for the nuclear generating units, is depreciated over their estimated useful lives on a straight-line basis. The annual straight-line depreciation provision expressed

as a percent of average depreciable utility plant in service was 3.3% in 1990 and 3.8% in 1989 and 1988. The 1990 rate declined because of a change in depreciation rates attributable to longer estimated lives for fossil-fueled electric generating units. The PUCO approved this change in depreciation rates effective January 1, 1990 which reduced depreciation expense for 1990 by $16,000,000 and increased earnings per share $.08.

Depreciation expense for the nuclear units is based on the units-of-production method. In 1990, the Nuclear Regulatory Commission (NRC) approved a six-year extension of the operating license for the Davis-Besse Nuclear Power Station (Davis-Besse). The PUCO approved a change in the units-of-production depreciation rate for Davis-Besse effective January 1, 1990 which recognized the life extension. This change reduced depreciation expense for 1990 by $9,790,000 and increased earnings per share $.04.

Effective July 1988, the Operating Companies began the external funding of future decommissioning costs for their operating nuclear units pursuant to a PUCO order. Cash contributions are made to the funds on a straight-line basis over the remaining licensing period for each unit. Amounts currently in rates are based on past estimates of decommissioning costs for the Operating Companies of $122,000,000 in 1986 dollars for Davis-Besse and $72,000,000 and $63,000,000 in 1987 dollars for Perry Unit 1 and Beaver Valley Unit 2, respectively. Actual decommissioning costs are expected to exceed these estimates. It is expected that increases in the cost estimates will be recoverable in rates resulting from future rate proceedings. The current level of expense being funded and recovered from customers over the remaining licensing periods of the units is approximately $8,000,000 annually. The present funding requirements for Beaver Valley Unit 2 also satisfy a similar commitment made as part of the sale and leaseback transaction discussed in Note 2.

FEDERAL INCOME TAXES

The financial statements reflect the liability method of accounting for income taxes as a result of adopting a new standard for accounting for income taxes in 1988. The liability method requires that our deferred tax liabilities be adjusted for subsequent tax rate changes and that we record deferred taxes for all temporary differences between the book and tax bases of assets and liabilities. A portion of these temporary differences relate to timing differences that the PUCO used to reduce prior years' tax expense for ratemaking purposes whereby no deferred taxes were recorded. Since the PUCO practice permits recovery of such taxes from customers when they become payable, the net amount due from customers has been recorded as a regulatory asset in deferred charges.

For certain property, the Operating Companies received investment tax credits which have been accounted for as deferred credits. The amortization of these investment tax credits is reported as a reduction of depreciation expense under the liability method. See Note 7.

DEFERRED GAIN AND LOSS FROM SALES OF UTILITY PLANT

The Operating Companies entered into sale and leaseback transactions in 1987 for the coal-fired Bruce Mansfield Generating Plant (Mansfield Plant) and Beaver Valley Unit 2 as discussed in Note 2. These transactions resulted in a net gain for the sale of Mansfield Plant and a net loss for the sale of Beaver Valley Unit 2, both of which were deferred. The Operating Companies are amortizing the applicable deferred gain and loss over the terms of leases under sale and leaseback agreements. The amortizations along with the lease expense amounts are recorded as other operation and maintenance expense.

INTEREST CHARGES

Debt interest reported in the Income Statement does not include interest on nuclear fuel obligations. Interest on nuclear fuel obligations for fuel under construction is capitalized. See Note 5.

Losses and gains realized upon the reacquisition or redemption of long-term debt are deferred, consistent with the regulatory rate treatment. Such losses and gains are either amortized over the remainder of the original life of the debt issue retired or amortized over the life of the new debt issue when the proceeds of a new issue are used for the debt redemption. The amortizations are included in debt interest expense.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at original cost less any amounts ordered by the PUCO to be written off. Included in the cost of construction are items such as related payroll taxes, pensions, fringe benefits, management and general overheads and allowance for funds used during construction (AFUDC). AFUDC represents the estimated composite debt and equity cost of funds used to finance construction. This noncash allowance is credited to income, except for certain AFUDC for Perry Nuclear Power Plant Unit 2 (Perry Unit 2). See Note 3(c). The gross AFUDC rates averaged 10.8% in 1990, 11.2% in 1989 and 11.4% in 1988.

Maintenance and repairs are charged to expense as incurred. Certain maintenance and repair expenses for Perry Unit 1 and Beaver Valley Unit 2 are being deferred pursuant to the PUCO accounting orders discussed above. The cost of replacing plant and equipment is charged to the utility plant accounts. The cost of property retired plus removal costs, after deducting any salvage value, is charged to the accumulated provision for depreciation.

Management's Financial Analysis

RESULTS OF OPERATIONS

Overview

The January 1989 PUCO rate orders which provided for three rate increases for the Operating Companies, as discussed in Note 6, were designed to enable us to begin recovering in rates the cost of, and earn a fair return on, our allowed investment in Beaver Valley Unit 2 and Perry Unit 1. The rate orders improved revenues and cash flow in 1989 and 1990 and are expected to continue to improve them in 1991. However, as discussed more fully in the fourth and fifth paragraphs of Note 6, the phase-in plans were not designed to improve earnings significantly because gains in revenues from the higher rates and assumed sales growth are initially offset by a corresponding reduction in the deferral of nuclear plant operating expenses and carrying charges and are subsequently offset by the amortization of such cost deferrals and carrying charges.

Despite the positive effect the new rates have on revenues and cash flow and the relatively neutral impact they have on earnings, we face a number of other factors which will exert a negative influence on earnings in 1991 and beyond. These include inflation, the economic recession and competitive forces. The latter, coupled with a desire to encourage economic growth, has prompted the Operating Companies in recent years to enter into contracts having reduced rates with certain large customers. Competitive forces have also prompted Toledo Edison to offer a rate reduction package to residential and small commercial customers as discussed in the eighth and ninth paragraphs of Note 6. Two other factors are having a negative influence on earnings. First, the Operating Companies are currently recording depreciation on nuclear units at a higher level than that which is reflected in rates because of the good performance of the units over the last several years. Second, with respect to facilities placed in service after February 1988 and not included in rate base, the Operating Companies are currently required to record interest charges and depreciation as current expenses even though such items are not yet reflected in rates.

We are taking several steps to counter the adverse effects of the factors discussed above. We are implementing the management audit recommendations discussed in the sixth paragraph of Note 6 which are expected to reduce operating expenses by about $100,000,000 annually. We have already shared 50% of the expected savings with customers by reducing the 1991 rate increases granted under the 1989 rate orders. However, continuing cost reduction efforts will be necessary to help offset the effect of inflation. Also, the Operating Companies are seeking PUCO approval to accrue nuclear plant depreciation at a level which is more closely aligned with the amount currently being recovered in rates by switching to the straight-line method. We also will seek approval to accrue post-in-service interest carrying charges and defer depreciation charges for facilities that are in service but not yet recognized in rates. Inability to obtain approval of the first accounting request would reduce earnings by as much as $58,000,000, or $.42 per share, in 1991, and more or less in subsequent years, depending on the performance of the units. Inability to obtain approval of the second request would reduce earnings by as much as $36,000,000, or $.26 per share, in 1991, and even more in subsequent years.

The Operating Companies have agreed to use their best efforts, such as these two requests for accounting orders, to avoid rate increases in the years immediately following 1991. Eventually, rate increases will be necessary to recognize the cost of our new capital investment and the effect of inflation.

Annual sales growth is expected to average about 2% for the next several years, contingent on future economic events. Recognizing the limitations imposed by these sales projections and competitive constraints, we will utilize our best efforts to minimize future rate increases through maximizing our cost reduction and quality of service efforts and exploring other innovative options. We will concentrate our efforts on retaining customers and adding new ones through innovative marketing and service initiatives.

1990 vs. 1989

Factors contributing to the 2.8% increase in 1990 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	$151,000,000
Sales Volume and Mix	(54,000,000)
Sales to Ohio Edison and Pennsylvania Power	(32,000,000)
	$ 65,000,000

The major factor accounting for the increase in operating revenues was related to the January 1989 rate orders for the Operating Companies. The PUCO approved annual rate increases for the Operating Companies of 9% effective in February 1989 and 7% effective in February 1990. The associated revenue increase in 1990 was partially offset by reduced revenues resulting from a 2.9% decrease in total kilowatt-hour sales. Industrial sales decreased 2.8% because of the recession beginning in 1990. Residential sales decreased 2.1% as seasonal temperatures were more moderate in comparison to the prior year's temperatures, resulting in reduced customer heating and cooling-related demand. Commercial sales increased 0.3% as increased demand from new all-electric office and retail space was offset by the effects of mild weather. Other sales activity decreased 22.3% primarily as a result of Toledo Edison's municipal utility customers satisfying a greater portion of their power needs from other sources. The increase in revenues was also partially offset by the loss of revenues related to the May 1989 expiration of Cleveland Electric's agreement to sell a portion of its share of Perry Unit 1 capacity to Ohio Edison and Pennsylvania Power.

Operating expenses decreased 0.4% in 1990. Depreciation and amortization expense decreased primarily because of lower depreciation rates used in 1990 for nonnuclear property and Davis-Besse attributable to longer estimated lives and because of longer nuclear generating unit refueling and maintenance outages in 1990 than in 1989. Federal income taxes decreased primarily because of a

decrease in pretax operating income. These decreases in operating expenses were partially offset by an increase in taxes, other than federal income taxes, resulting from higher property and gross receipts taxes, and by lower nuclear operating expense deferrals for Perry Unit 1 and Beaver Valley Unit 2 pursuant to the January 1989 PUCO rate orders.

Credits for carrying charges recorded in nonoperating income decreased in 1990 because a greater share of our investments and leasehold interests in Perry Unit 1 and Beaver Valley Unit 2 were recovered in rates. The decrease in the federal income tax provision related to nonoperating income was the result of a decrease in pretax nonoperating income and federal income tax adjustments of $37,522,000 associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant. Other income and deductions, net, decreased primarily because of less interest income in 1990.

1989 vs. 1988

Factors contributing to the 13% increase in 1989 operating revenues are as follows:

Change in Operating Revenues	Increase (Decrease)
Base Rates and Miscellaneous	$173,000,000
Deferred CWIP Revenues	88,000,000
Sales to Ohio Edison and Pennsylvania Power	(52,000,000)
Fuel Cost Recovery Revenues	42,000,000
Sales Volume and Mix	14,000,000
	$265,000,000

The January 1989 rate orders for the Operating Companies were primarily responsible for two major factors impacting the increase in revenues. The PUCO granted both companies 9% rate increases effective in February 1989. The increase in revenues attributable to deferred construction work in progress (CWIP) revenues in 1989 resulted from the reduction in the amount of deferred credits for the mirror CWIP refund obligations to customers. Fuel cost recovery revenues increased in 1989 because of a significant rise in the fuel cost recovery factors compared to 1988. The lower 1988 factors recognized a greater amount of refunds to our customers ordered by the PUCO for certain replacement fuel and purchased power costs collected from customers during a 1985-1986 Davis-Besse outage. Total kilowatt-hour sales decreased 1.8% in 1989. The comparatively moderate summer weather in 1989 lowered sales because of reduced air conditioning usage. Residential sales decreased 1.6%. Commercial sales increased 3.9% as a result of continuing growth from new office buildings and retail outlets. Industrial sales decreased 2.1% principally because of a 7% reduction in sales to large steel and automotive customers. Sales to other industrial customers increased 0.5%. The decrease in revenues from sales to Ohio Edison and Pennsylvania Power was the result of the May 1989 expiration of Cleveland Electric's agreement to sell a portion of its share of Perry Unit 1 capacity.

Operating expenses increased 8.4% in 1989. Lower deferrals of nuclear operating expense for Perry Unit 1 and Beaver Valley Unit 2 resulted in a $122,000,000 increase in expense. Fuel and purchased power expense increased largely because of the matching of expense with higher fuel cost recovery revenues discussed in the preceding paragraph. Improved nuclear unit availability enabled the Operating Companies to sell power to other utilities. The excess of revenues over cost is treated as a reduction in purchased power expense which cushioned the increase in fuel and purchased power expense for the year. Depreciation expense increased, reflective of the increased generation from our nuclear units since their depreciation is recorded based on units-of-production.

Nonoperating income credits for AFUDC and carrying charges decreased in 1989 as a result of placing investment in rate base pursuant to the rate orders. Interest expense and preferred and preference dividend requirements decreased in 1989 because of retirements and refinancings by the Operating Companies.

EFFECT OF INFLATION

Although the rate of inflation has eased in recent years, we are still affected by even modest inflation since the regulatory process introduces a time-lag during which increased costs of our labor, materials and services are not reflected in rates and fully recovered. Moreover, regulation allows only the recovery of historical costs of plant assets through depreciation even though the costs to replace these assets would substantially exceed their historical costs in an inflationary economy.

Changes in fuel costs do not affect our results of operations since those costs are deferred until reflected in the fuel cost recovery factor included in customers' bills.

RETAINED EARNINGS

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

	For the years ended December 31,		
	1990	1989	1988
		(thousands of dollars)	
Balance at Beginning of Year	**$ 613,774**	$ 571,882	$ 908,611
Additions			
Net income (loss)	**264,459**	266,886	(73,960)
Deductions			
Common stock dividends	**(222,482)**	(224,947)	(259,022)
Other, primarily preferred stock redemption expenses of subsidiaries	**(915)**	(47)	(3,747)
Net Increase (Decrease)	**41,062**	41,892	(336,729)
Balance at End of Year	**$ 654,836**	$ 613,774	$ 571,882

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

INCOME STATEMENT

	For the years ended December 31,		
	1990	1989	1988
	(thousands of dollars, except per share amounts)		
Operating Revenues	$2,367,675	$2,302,436	$2,037,560
Operating Expenses			
Fuel and purchased power	412,531	413,816	391,401
Other operation and maintenance	862,738	860,138	865,632
Depreciation and amortization	251,640	280,918	264,824
Taxes, other than federal income taxes	283,425	259,871	268,550
Phase-in deferred operating expenses	(50,940)	(74,555)	—
Pre-phase-in deferred operating expenses	7,629	7,932	(188,209)
Federal income taxes	96,076	122,385	123,697
	1,863,099	1,870,505	1,725,895
Operating Income	504,576	431,931	311,665
Nonoperating Income			
Allowance for equity funds used during construction	7,883	16,930	13,504
Other income and deductions, net	(11)	14,212	45,308
Write-off of nuclear costs	—	—	(534,355)
Phase-in carrying charges	205,085	299,159	—
Pre-phase-in carrying charges	—	—	372,155
Federal income taxes — credit (expense)	(12,948)	(73,177)	131,254
	200,009	257,124	27,866
Income Before Interest Charges	704,585	689,055	339,531
Interest Charges			
Debt interest	384,278	369,481	378,292
Allowance for borrowed funds used during construction	(5,993)	(12,929)	(6,137)
	378,285	356,552	372,155
Income (Loss) After Interest Charges	326,300	332,503	(32,624)
Preferred and preference dividend requirements of subsidiaries	61,841	65,617	69,489
Income (Loss) Before Cumulative Effect of an Accounting Change	264,459	266,886	(102,113)
Cumulative Effect on Prior Years (to December 31, 1987) of an Accounting Change for Unbilled Revenues (Net of Income Taxes of $18,729,000)	—	—	28,153
Net Income (Loss)	$ 264,459	$ 266,886	$ (73,960)
Average Number of Common Shares Outstanding (thousands)	138,885	140,468	140,778
Earnings (Loss) Per Common Share			
Before cumulative effect of an accounting change	$ 1.90	$ 1.90	$ (.73)
Cumulative effect of an accounting change	—	—	.20
Total	$ 1.90	$ 1.90	$ (.53)
Dividends Declared Per Common Share	$ 1.60	$ 1.60	$ 1.84

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

MANAGEMENT'S FINANCIAL ANALYSIS

CAPITAL RESOURCES AND LIQUIDITY

We continue to need cash for an ongoing program of constructing new facilities and modifying existing facilities to meet anticipated demand for electric service, to comply with governmental regulations and to improve the environment. Cash is also needed for mandatory retirement of securities. Over the three-year period of 1988-1990, these construction and mandatory retirement needs totaled approximately $1,210,000,000. In addition, we exercised various options to redeem and purchase approximately $720,000,000 of our securities.

During the 1988-1990 period, Cleveland Electric and Toledo Edison issued $356,430,000 and $174,100,000, respectively, of first mortgage bonds, and obtained $56,000,000 and $15,000,000, respectively, of term bank loans. In 1989 and 1990, Cleveland Electric also issued $550,000,000 of secured medium-term notes. The Operating Companies utilized their short-term borrowing arrangements (explained in Note 11) which resulted in Cleveland Electric and Toledo Edison having $87,110,000 and $23,200,000, respectively, of commercial paper outstanding at December 31, 1990. Proceeds from these financings were used to pay our construction program costs, to repay portions of short-term debt incurred to finance the construction program, to retire, redeem and purchase outstanding securities, and for general corporate purposes.

The Operating Companies were granted rate increases effective in 1989, 1990 and 1991 pursuant to January 1989 PUCO rate orders. See Note 6 for a discussion of those rate orders which provide for specific levels of rate increases through 1991. Although the rate orders required us to write off certain assets in 1988 which lowered our earnings base, our current cash flow was not impaired. Internally generated cash increased in 1989 and 1990 from the 1988 level as a result of the rate increases.

Estimated cash requirements for our construction program for 1991-1993 are $605,000,000 for Cleveland Electric and $235,000,000 for Toledo Edison. In addition, Cleveland Electric and Toledo Edison will require $515,000,000 and $297,000,000, respectively, for the mandatory redemption of debt and preferred stock during this period. Cleveland Electric expects to finance externally about 33% of its 1991 construction and mandatory redemption requirements of approximately $267,000,000. About 75% of Toledo Edison's requirements of approximately $177,000,000 in 1991 will be financed externally. We expect to finance externally about 60% of our 1992 and 1993 requirements. If economical, we may also redeem additional securities under optional redemption provisions. See Notes 10(d) and (e) for information concerning limitations on the issuance of preferred and preference stock and debt.

Our capital requirements will increase after 1994 as a result of the Clean Air Act of 1990 (Clean Air Act). Our future capital spending will depend on the implementation strategy we choose to achieve compliance with the new law. Our preliminary estimates for capital expenditures to comply with the Clean Air Act are in the range of $400,000,000 to $700,000,000. See Note 3(b).

We expect to be able to raise cash as needed. The availability of capital to meet our external financing needs, however, depends upon such factors as financial market conditions and our credit ratings. Current securities ratings for the Operating Companies are as follows:

	Standard & Poor's Corporation	Moody's Investors Service
Cleveland Electric		
First mortgage bonds	BBB−	Baa2
Preferred stock	BB+	baa2
Toledo Edison		
First mortgage bonds	BBB−	Baa3
Unsecured notes	BB+	Ba1
Preferred stock	BB+	ba2

We believe that the rate orders, coupled with stringent cost control, have given us a reasonable opportunity to achieve financial results which should permit Centerior Energy to continue the current quarterly common stock dividend of $.40 per share. Nevertheless, dividend action by our Board of Directors will continue to be decided on a quarter-to-quarter basis after the evaluation of financial results, potential earning capacity and cash flow. A write-off of our investment in Perry Unit 2, as discussed in Note 3(c), would not reduce our retained earnings sufficiently to impair our ability to declare dividends and would not affect our cash flow.

The Tax Reform Act of 1986 (1986 Tax Act) provided for a 34% income tax rate in 1988 and thereafter, the repeal of the investment tax credit, scheduled reductions in investment tax credit carryforwards, less favorable depreciation rates, a new alternative minimum tax (AMT) and other items. These changes had no significant cash flow impact in 1988 because we had a net operating loss for tax purposes. However, the changes resulted in increased tax payments and a reduction in cash flow during 1989 and 1990 because we were subject to the AMT.

CASH FLOWS

CENTERIOR ENERGY CORPORATION AND SUBSIDIARIES

	For the years ended December 31,		
	1990	1989	1988
		(thousands of dollars)	
Cash Flows from Operating Activities (1)			
Net Income (Loss)	**$ 264,459**	$ 266,886	$ (73,960)
Adjustments to Reconcile Net Income (Loss) to Cash from Operating Activities:			
Depreciation and amortization	**251,640**	280,918	264,824
Deferred federal income taxes	**142,190**	181,240	(37,422)
Investment tax credits, net	**(34,287)**	1,179	(3,687)
Write-off of nuclear costs	**—**	—	534,355
Deferred and unbilled revenues	**(60,792)**	(74,792)	23,842
Deferred fuel	**(11,843)**	25,086	(54,601)
Carrying charges capitalized	**(205,085)**	(299,159)	(372,155)
Leased nuclear fuel amortization	**84,150**	102,120	77,196
Deferred operating expenses, net	**(43,311)**	(66,623)	(188,209)
Allowance for equity funds used during construction	**(7,883)**	(16,930)	(13,504)
Amortization of reserve for Davis-Besse refund obligations to customers	**—**	(24,817)	(41,118)
Pension settlement gain	**(40,966)**	—	—
Cumulative effect of an accounting change	**—**	—	(28,153)
Changes in amounts due from customers and others, net	**(26,445)**	(13,486)	5,384
Changes in inventories	**(29,015)**	(3,029)	10,283
Changes in accounts payable	**63,610**	(10,732)	73,765
Changes in working capital affecting operations	**(24,913)**	17,120	17,058
Other noncash items	**(10,772)**	(10,319)	(8,510)
Total Adjustments	**46,278**	87,776	259,348
Net Cash from Operating Activities	**310,737**	354,662	185,388
Cash Flows from Financing Activities (2)			
Bank loans, commercial paper and other short-term debt	**109,888**	29	(36,555)
Debt issues:			
First mortgage bonds	**167,300**	123,800	239,430
Secured medium-term notes	**337,500**	212,500	—
Term bank loans	**31,000**	40,000	—
Common stock issues	**—**	740	1,539
Reacquired common stock	**(25,601)**	(19,804)	—
Maturities, redemptions and sinking funds	**(395,287)**	(370,747)	(384,178)
Nuclear fuel lease and trust obligations	**(99,076)**	(86,589)	(77,196)
Common stock dividends paid	**(222,482)**	(224,947)	(259,022)
Premiums, discounts and expenses	**(7,360)**	(2,622)	1,176
Net Cash from Financing Activities	**(104,118)**	(327,640)	(514,806)
Cash Flows from Investing Activities (2)			
Cash applied to construction	**(237,436)**	(223,881)	(313,157)
Interest capitalized as allowance for borrowed funds used during construction	**(5,993)**	(12,929)	(6,137)
Cash withdrawn from sale and leaseback and other trusts	**—**	—	374,085
Other cash applied	**(13,055)**	(17,866)	(7,351)
Net Cash from Investing Activities	**(256,484)**	(254,676)	47,440
Net Change in Cash and Temporary Cash Investments	**(49,865)**	(227,654)	(281,978)
Cash and Temporary Cash Investments at Beginning of Year	**103,143**	330,797	612,775
Cash and Temporary Cash Investments at End of Year	**$ 53,278**	$ 103,143	$ 330,797

(1) Interest paid was $375,000,000, $367,000,000 and $373,000,000 in 1990, 1989 and 1988, respectively. Income taxes paid were $21,185,000, $9,058,000 and $76,534,000 in 1990, 1989 and 1988, respectively.

(2) Increases in nuclear fuel and nuclear fuel lease and trust obligations in the Balance Sheet resulting from the noncash capitalizations under nuclear fuel agreements are excluded from this statement.

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

BALANCE SHEET

	December 31, 1990	December 31, 1989
	(thousands of dollars)	
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Utility plant in service	$ 8,648,888	$ 8,411,116
Less: accumulated depreciation and amortization	2,056,244	1,831,767
	6,592,644	6,579,349
Construction work in progress	268,386	288,225
Perry Unit 2	865,149	869,048
	7,726,179	7,736,622
Nuclear fuel, net of amortization	522,672	544,375
Other property, less accumulated depreciation	45,452	47,317
	8,294,303	8,328,314
CURRENT ASSETS		
Cash and temporary cash investments	53,278	103,143
Amounts due from customers and others, net	242,761	216,316
Unbilled revenues	80,866	78,718
Materials and supplies, at average cost	108,758	83,322
Fossil fuel inventory, at average cost	52,578	48,999
Taxes applicable to succeeding years	218,444	207,635
Other	9,922	14,819
	766,607	752,952
DEFERRED CHARGES		
Amounts due from customers for future federal income taxes	1,165,904	1,201,278
Unamortized loss from Beaver Valley Unit 2 sale	119,623	122,911
Unamortized loss on reacquired debt	80,564	75,988
Carrying charges and operating expenses, pre-phase-in	634,595	641,236
Carrying charges and operating expenses, phase-in	629,744	373,714
Other	202,895	170,154
	2,833,325	2,585,281
Total Assets	$11,894,235	$11,666,547

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

	December 31, 1990	December 31, 1989
	(thousands of dollars)	
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION		
Common shares, without par value (stated value of $189,460,000 and $191,710,000 for 1990 and 1989, respectively): 180,000,000 authorized, 138,401,000 (excluding 2,511,000 shares in Treasury) and 139,792,000 (excluding 1,120,000 shares in Treasury) outstanding in 1990 and 1989, respectively	**$ 2,155,197**	$ 2,180,798
Retained earnings	**654,836**	613,774
Common stock equity	**2,810,033**	2,794,572
Preferred stock		
With mandatory redemption provisions	**237,490**	281,352
Without mandatory redemption provisions	**427,334**	427,334
Long-term debt	**3,729,237**	3,533,656
	7,204,094	7,036,914
OTHER NONCURRENT LIABILITIES		
Refund obligations to customers	**—**	23,779
Other, primarily nuclear fuel lease obligations	**508,694**	557,789
	508,694	581,568
CURRENT LIABILITIES		
Current portion of long-term debt and preferred stock	**214,138**	217,706
Current portion of lease obligations	**114,943**	101,057
Notes payable to banks and others	**110,094**	206
Accounts payable	**311,713**	248,103
Accrued taxes	**323,716**	329,440
Accrued interest	**84,778**	84,232
Dividends declared	**13,972**	13,893
Accrued payroll and vacations	**28,555**	27,692
Current portion of refund obligations to customers	**23,888**	58,752
Other	**7,386**	22,072
	1,233,183	1,103,153
DEFERRED CREDITS		
Unamortized investment tax credits	**336,136**	381,925
Accumulated deferred federal income taxes	**1,730,954**	1,622,458
Reserve for Perry Unit 2 allowance for funds used during construction	**212,693**	212,693
Unamortized gain from Bruce Mansfield Plant sale	**626,493**	655,573
Other	**41,988**	72,263
	2,948,264	2,944,912
Total Capitalization and Liabilities	**$11,894,235**	$11,666,547

Statement of Cumulative Preferred and Preference Stock

	1990 Shares Outstanding	Current Call Price	December 31, 1990	December 31, 1989
			(thousands of dollars)	
CLEVELAND ELECTRIC				
Without par value, 4,000,000 preferred shares authorized, and without par value, 3,000,000 preference shares authorized, none outstanding				
Preferred, subject to mandatory redemption:				
$ 7.35 Series C	180,000	$ 101.00	**$ 18,000**	$ 19,000
88.00 Series E	30,000	1,034.43	**30,000**	33,000
75.00 Series F	2,384	1,000.00	**2,384**	2,384
80.00 Series G	—	—	**—**	800
145.00 Series H	—	—	**—**	14,244
145.00 Series I	13,779	—	**13,779**	17,717
113.50 Series K	10,000	—	**10,000**	10,000
Adjustable Series M	500,000	103.00	**49,000**	49,000
9.125 Series N	750,000	106.08	**73,968**	73,968
			197,131	220,113
Less: Current maturities			**25,969**	7,751
			171,162	212,362
Preferred, not subject to mandatory redemption:				
$ 7.40 Series A	500,000	101.00	**50,000**	50,000
7.56 Series B	450,000	102.26	**45,071**	45,071
Adjustable Series L	500,000	103.00	**48,950**	48,950
Remarketed Series P	750	100,000.00	**73,313**	73,313
			217,334	217,334
TOLEDO EDISON				
$100 par value, 3,000,000 preferred shares authorized; $25 par value, 12,000,000 preferred shares authorized; and $25 par value, 5,000,000 preference shares authorized, none outstanding				
Preferred, subject to mandatory redemption:				
$100 par $11.00	34,825	101.00	**3,483**	4,480
9.375	150,100	103.95	**15,010**	16,675
25 par 2.81	2,000,000	26.87	**50,000**	50,000
			68,493	71,155
Less: Current maturities			**2,165**	2,165
			66,328	68,990
Preferred, not subject to mandatory redemption:				
$100 par $ 4.25	160,000	104.625	**16,000**	16,000
4.56	50,000	101.00	**5,000**	5,000
4.25	100,000	102.00	**10,000**	10,000
8.32	100,000	102.46	**10,000**	10,000
7.76	150,000	102.437	**15,000**	15,000
7.80	150,000	101.65	**15,000**	15,000
10.00	190,000	101.00	**19,000**	19,000
25 par 2.21	1,000,000	25.90	**25,000**	25,000
2.365	1,400,000	28.45	**35,000**	35,000
Series A Adjustable	1,200,000	25.75	**30,000**	30,000
Series B Adjustable	1,200,000	—	**30,000**	30,000
			210,000	210,000
CENTERIOR ENERGY				
Without par value, 5,000,000 preferred shares authorized	—	—	**—**	—
Total Preferred Stock, with Mandatory Redemption Provisions			**$237,490**	$281,352
Total Preferred Stock, without Mandatory Redemption Provisions			**$427,334**	$427,334

The accompanying notes and summary of significant accounting policies are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

(1) PROPERTY OWNED WITH OTHER UTILITIES AND INVESTORS

The Operating Companies own, as tenants in common with other utilities and those investors who are owner-participants in various sale and leaseback transactions (Lessors), certain generating units as listed below. Each owner owns an undivided share in the entire unit. Each owner has the right to a percentage of the generating capability of each unit equal to its ownership share. Each utility owner is obligated to pay for only its respective share of the construction and operating costs. Each Lessor has leased its capacity rights to a utility which is obligated to pay for such Lessor's share of the construction and operating costs. The Operating Companies' share of the operating expense of these generating units is included in the Income Statement. Property, plant and equipment at December 31, 1990 includes the following facilities owned by the Operating Companies as tenants in common with other utilities and Lessors:

Generating Unit	In-Service Date	Ownership Share	Ownership Megawatts	Power Source	Plant in Service	Construction Work in Progress	Accumulated Depreciation
					(thousands of dollars)		
In Service:							
Seneca Pumped Storage	1970	80.00%	305	Hydro	$ 58,344	$ 554	$ 19,527
Eastlake Unit 5	1972	68.80	411	Coal	154,589	1,699	—
Perry Unit 1 and Common Facilities	1987	51.02	609	Nuclear	2,524,249	10,902	257,825
Beaver Valley Unit 2 and Common Facilities (Note 2)	1987	26.12	214	Nuclear	1,350,451	8,797	139,075
Construction Suspended (Note 3(c)): Perry Unit 2	Uncertain	51.02	615	Nuclear	—	865,149	—
					$4,087,633	$887,101	$416,427

Depreciation for Eastlake Unit 5 has been accumulated with depreciable property for all generating units rather than by specific generating units.

Ohio Edison and Pennsylvania Power purchased 80 megawatts of Cleveland Electric's capacity entitlement in Perry Unit 1 from November 1987 through May 1989. Revenues from this transaction were $31,831,000 and $84,068,000 in 1989 and 1988, respectively.

(2) UTILITY PLANT SALE AND LEASEBACK TRANSACTIONS

As a result of sale and leaseback transactions completed in 1987, the Operating Companies are co-lessees of 18.26% (150 megawatts) of Beaver Valley Unit 2 and 6.5% (51 megawatts), 45.9% (358 megawatts) and 44.38% (355 megawatts) of Units 1, 2 and 3 of the Mansfield Plant, respectively, all for terms of about 29½ years.

Future minimum lease payments under these operating leases at December 31, 1990 are summarized as follows:

Year	Amount
	(thousands of dollars)
1991	$ 170,000
1992	173,000
1993	174,000
1994	174,000
1995	174,000
Later Years	4,171,000
Total Future Minimum Lease Payments	$5,036,000

Semiannual lease payments conform with the payment schedule for each lease.

Rental expense is accrued on a straight-line basis over the terms of the leases. The amounts recorded as rental expense for the Mansfield Plant leases were $114,564,000 in both 1990 and 1989 and $111,105,000 in 1988. Rental expense for the Beaver Valley Unit 2 lease was $72,276,000 in both 1990 and 1989. Rental expense for Beaver Valley Unit 2 of $70,300,000 in 1988 was recorded in a deferred charge account pursuant to PUCO accounting orders. This deferred amount is being amortized to expense over the life of the lease beginning in 1989. Additional rental expense amounts, which were not deferred but were charged to expense in 1988, were not significant.

The Operating Companies are responsible under these leases for paying all taxes, insurance premiums, operation and maintenance costs and all other similar costs for their interests in the units sold and leased back. The Operating Companies may incur additional costs in connection with capital improvements to the units. The Operating Companies have options to buy the interests back at the end of the leases for the fair market value at that time or to renew the leases. Additional lease provisions provide other purchase options along with conditions for mandatory termination of the leases (and possible repurchase of the leasehold interests) for events of default. These events of default include noncompliance with several financial covenants affecting Centerior Energy and the Operating Companies contained in an agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2, as amended in 1989. See Note 10(e).

Toledo Edison is selling 150 megawatts of its Beaver Valley Unit 2 leased capacity entitlement to Cleveland Electric. This sale commenced in November 1988 and we anticipate that it will continue at least until 1998.

(3) CONSTRUCTION AND CONTINGENCIES

(a) CONSTRUCTION PROGRAM

The estimated cost of our construction program for the 1991-1993 period is $900,000,000, including AFUDC of $60,000,000 and excluding nuclear fuel.

(b) CLEAN AIR LEGISLATION

The Clean Air Act will require, among other things, significant reductions in the emission of sulfur dioxide and nitrogen oxides by fossil-fueled electric generating units. The Clean Air Act will require that sulfur dioxide emissions be reduced in two phases over a ten-year period. Our preliminary analysis indicates that compliance with the Clean Air Act may require additional aggregate capital expenditures in the range of $400,000,000 to $700,000,000 by the Operating Companies and is expected to result in higher fuel and operation and maintenance expenses.

The aggregate rate increases needed to fund compliance with the first of the two phases could be in the range of 2% to 4% by the year 1999. Total compliance costs of the Clean Air Act for both phases could result in aggregate rate increases in the range of 7% to 8% by the year 2004. Capital expenditures will be incurred after 1994. The financial impact is expected to be substantially greater on Cleveland Electric than on Toledo Edison. A more specific compliance cost estimate will become available when our compliance strategy is further developed.

We believe that Ohio law would permit the recovery of compliance costs from customers in rates.

(c) PERRY UNIT 2

Perry Unit 2, including its share of the common facilities, is over 50% complete. Construction of Perry Unit 2 was suspended in 1985 by the CAPCO companies pending future consideration of various options, including resumption of full construction with a revised estimated cost and completion date or cancellation. No option may be implemented without the approval of each of the CAPCO companies. Duquesne, a 13.74% owner of Perry Unit 2, has advised the Pennsylvania Public Utility Commission that it will not agree to resumption of construction of Perry Unit 2. The NRC construction permit for Perry Unit 2 expires in November 1991. Cleveland Electric, the company responsible for the construction of Perry Unit 2, plans to apply for an extension of the construction permit prior to the expiration date. Under NRC regulations, this action will cause the construction permit to remain in effect while the application is pending.

If Perry Unit 2 were to be canceled, then our net investment in Perry Unit 2 (less any tax saving) would have to be written off. We estimate that such a write-off, based on our investment in this unit as of December 31, 1990, would have been about $441,000,000, after taxes. See Notes 10(d) and (e) for a discussion of other potential consequences of such a write-off.

Beginning in July 1985, Perry Unit 2 AFUDC was credited to a deferred income account until January 1, 1988, when the practice was discontinued.

(d) SUPERFUND SITES

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended (Superfund) established programs addressing the cleanup of hazardous waste disposal sites, emergency preparedness and other issues. The Operating Companies are aware of their potential involvement in the cleanup of nine hazardous waste sites. We believe that the ultimate outcome of these matters will not have a material adverse effect on our financial condition or results of operations.

(4) NUCLEAR OPERATIONS AND CONTINGENCIES

(a) OPERATING NUCLEAR UNITS

Our interests in nuclear units may be impacted by activities or events beyond our control. Operating nuclear generating units have experienced unplanned outages or extensions of scheduled outages because of equipment problems or new regulatory requirements. A major accident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation, construction or licensing of any nuclear unit. If one of our nuclear units is taken out of service for an extended period of time for any reason, including an accident at such unit or any other nuclear facility, we cannot predict whether regulatory authorities would impose unfavorable rate treatment such as taking our affected unit out of rate base. An extended outage of one of our nuclear units coupled with unfavorable rate treatment could have a material adverse effect on our financial position and results of operations.

(b) NUCLEAR INSURANCE

The Price-Anderson Act limits the liability of the owners of a nuclear power plant to the amount provided by private insurance and an industry assessment plan. In the event of a nuclear incident at any unit in the United States resulting in losses in excess of the level of private insurance (currently $200,000,000), our maximum potential assessment under that plan (assuming the other CAPCO companies were to contribute their proportionate share of any assessment) would be $129,257,000 (plus any inflation adjustment) per incident, but is limited to $19,540,000 per year for each nuclear incident.

The CAPCO companies have insurance coverage for damage to property at Davis-Besse, Perry and Beaver Valley (including leased fuel and clean-up costs). Coverage amounted to $2,325,000,000 for each site as of January 1, 1991. Damage to property could exceed the insurance coverage by a substantial amount. If it does, our share of such excess amount could have a material adverse effect on our financial condition and results of operations.

We also have insurance coverage for the incremental cost of any replacement power purchased (over the costs which would have been incurred had the units been operating) after the occurrence of certain types of accidents at our nuclear units. The amounts of the coverage are 100% of the estimated incremental cost per week during the 52-week period

starting 21 weeks after an accident, 67% of such estimate per week for the next 52 weeks and 33% of such estimate per week for the next 52 weeks. The cost and duration of replacement power could substantially exceed the insurance coverage.

(5) NUCLEAR FUEL

The Operating Companies have inventories for nuclear fuel which should provide an adequate supply into the mid-1990s. Substantial additional nuclear fuel must be obtained to supply fuel for the remaining useful lives of Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2. More nuclear fuel would be required if Perry Unit 2 were completed.

In 1989, existing nuclear fuel financing arrangements for the Operating Companies were refinanced through leases from a special-purpose corporation. The total amount of financing currently available under these lease arrangements is $609,000,000 ($309,000,000 from intermediate-term notes and $300,000,000 from bank credit arrangements), although financing in an amount up to $900,000,000 is permitted. The intermediate-term notes mature in the period 1993-1997. Beginning in 1991, the bank credit arrangements are cancelable on two years' notice by the lenders. As of December 31, 1990, $547,000,000 of nuclear fuel was financed. The Operating Companies severally lease their respective portions of the nuclear fuel and are obligated to pay for the fuel as it is consumed in a reactor. The lease rates are based on various intermediate-term note rates, bank rates and commercial paper rates.

The amounts financed include nuclear fuel in the Davis-Besse, Perry Unit 1 and Beaver Valley Unit 2 reactors with remaining lease payments of $127,000,000, $46,000,000 and $59,000,000, respectively, as of December 31, 1990. The nuclear fuel amounts financed and capitalized also included interest charges incurred by the lessors amounting to $33,000,000 in 1990, $44,000,000 in 1989 and $41,000,000 in 1988. The estimated future lease amortization payments based on projected consumption are $112,000,000 in both 1991 and 1992, $116,000,000 in 1993, $110,000,000 in 1994 and $99,000,000 in 1995. As these payments are made, the amount of credit available to the lessor becomes available to finance additional nuclear fuel, assuming the lessor's intermediate-term notes and bank credit arrangements continue to be outstanding.

(6) REGULATORY MATTERS

On January 31, 1989, the PUCO issued orders which provided for three annual rate increases for the Operating Companies of approximately 9%, 7% and 6% effective with bills rendered on and after February 1, 1989, 1990 and 1991, respectively. The 6% increase effective February 1, 1991 has been reduced to 4.35% for Cleveland Electric and 2.74% for Toledo Edison as discussed below.

The annualized revenue increases in 1989 and 1990 associated with the rate orders were $120,700,000 and $105,700,000, respectively, for Cleveland Electric and $50,700,000 and $44,300,000, respectively, for Toledo Edison. In 1991, the estimated annualized revenue increases resulting from the orders, as adjusted, are $71,400,000 for Cleveland Electric and $18,600,000 for Toledo Edison before giving effect to the rate reduction proposals discussed below.

The January 1989 rate orders provided for the permanent exclusion from rate base of a portion of the Operating Companies' combined investment in Perry Unit 1 and Beaver Valley Unit 2 which resulted in a write-off of $454,000,000 ($300,000,000 after tax) in 1988. Since the orders effectively eliminated the possibility of the Operating Companies recovering their remaining investment in four nuclear construction projects canceled in 1980 and recovering certain deferred expenses for Davis-Besse, additional write-offs totaling $80,000,000 ($49,000,000 after tax) were recorded in 1988, bringing the total write-off of nuclear costs as a consequence of the orders to $534,000,000 ($349,000,000 after tax).

The phase-in plans under the January 1989 rate orders were designed so that the three rate increases, coupled with then-projected sales growth, would provide revenues sufficient to recover all operating expenses and provide a fair rate of return on the Operating Companies' allowed investments in Perry Unit 1 and Beaver Valley Unit 2 for ten years beginning January 1, 1989. In the early years of the plans, the revenues were expected to be less than that required to recover operating expenses and provide a fair return on investment. Therefore, the amounts of operating expenses and return on investment not currently recovered are deferred and capitalized as deferred charges. Since the unrecovered investment will decline over the period of the phase-in plans because of depreciation and federal income tax benefits that result from the use of accelerated tax depreciation, the amount of revenues required to provide a fair return also declines. Beginning in the sixth year, the revenue levels authorized pursuant to the phase-in plans were designed to be sufficient to recover that period's operating expenses, a fair return on the unrecovered investments, and amortization of deferred operating expenses and carrying charges recorded during the earlier years of the plans. All phase-in deferrals after December 31, 1988 relating to these two units will be recovered by December 31, 1998. Pursuant to such phase-in plans, the Operating Companies deferred the following:

	1990	1989
	(thousands of dollars)	
Deferred Operating Expenses	$ 50,940	$ 74,555
Carrying Charges:		
Debt	$ 72,782	$111,714
Equity	132,303	187,445
	$205,085	$299,159

Under the January 1989 rate orders, the amount of deferred operating expenses and carrying charges scheduled to be recorded in 1991 through 1993 total $104,000,000, $84,000,000 and $24,000,000, respectively. The phase-in plans were designed so that fluctuations in sales should not affect the level of

earnings. The orders accomplish this by allowing the Operating Companies to seek PUCO approval to adjust cost deferrals if actual revenues are higher or lower than amounts projected in the orders. The orders also provide for the adjustment of deferrals to reflect 50% of the net after-tax savings in 1989 and 1990 identified by the management audit and approved by the PUCO as discussed in the following paragraphs. No change was made in the cost deferrals for 1989. The Operating Companies deferred an additional $10,169,000 of carrying charges in 1990 and will request PUCO approval of the deferral.

In connection with the 1989 orders, the Operating Companies and the Service Company have undergone a management audit to assure that operation and maintenance expense savings are maximized. The audit was conducted under the direction of an Audit Advisory Panel (Audit Panel) comprised of representatives of Centerior Energy, the Ohio Office of Consumers' Counsel and the Industrial Energy Consumers. In April 1990, the Audit Panel announced that it had identified potential annual savings in operating expenses in the amount of $98,160,000 from 1989 budget levels. The amount of potential savings attributable to Cleveland Electric is 55% ($53,988,000) and the amount attributable to Toledo Edison is 45% ($44,172,000). The Operating Companies expect to begin realizing most of the savings identified by the audit by the end of 1991.

Fifty percent of the savings identified by the Audit Panel were used to reduce the 6% rate increase scheduled to go into effect on February 1, 1991 for each of the Operating Companies. As discussed previously, Cleveland Electric rates increased 4.35% and Toledo Edison rates increased 2.74% under this provision as approved by the PUCO in January 1991. The rate impact is different for the two companies because much of the savings will be achieved in areas such as nuclear operations in which Toledo Edison stands to achieve greater savings relative to its size.

In a move to become more competitive in Northwest Ohio, Toledo Edison has proposed a rate reduction package to all incorporated communities in Toledo Edison's service area which are served exclusively by Toledo Edison on a retail basis. The package calls for the elimination of the 2.74% rate increase effective February 1, 1991 for all residential and small commercial customers, a reduction in residential rates of 3% on March 1, 1991 and a further residential rate reduction of 1% on September 1, 1991. Communities accepting the package must agree to keep Toledo Edison as their sole supplier of electricity for a period of five years. The package also permits Toledo Edison to adjust rates in those communities on February 1, 1994 and February 1, 1995 if inflation exceeds specified levels or under emergency conditions. All eligible communities in Toledo Edison's service area, except the City of Toledo, have accepted the rate reduction package.

Toledo Edison plans to request PUCO approval to reduce rates to the same levels for the same customer categories in the City of Toledo and the rest of its service area. If all areas now served by Toledo Edison receive the benefits of the lower rates, annualized revenues will be reduced by about $17,000,000. The revenue reductions will not adversely affect the phase-in plans as the decrease in revenues will be mitigated by the cost reductions discussed above.

The Operating Companies have entered into an agreement with other members of the Audit Panel in which the Operating Companies have agreed to use their best efforts to avoid rate increases in the years immediately following 1991.

The 1989 orders also set nuclear performance standards through 1998. Beginning in 1991, the Operating Companies could be required to refund incremental replacement power costs if the standards are not met. The Operating Companies do not believe any refund will be required for 1991. Fossil-fueled power plant performance may not be raised as an issue in any rate proceeding before February 1994 as long as the Operating Companies achieve a system-wide availability factor of at least 65% annually. This standard was exceeded in 1989 and 1990.

(7) FEDERAL INCOME TAX

Federal income tax, computed by multiplying the income before taxes and preferred and preference dividend requirements of subsidiaries by the statutory rates, is reconciled to the amount of federal income tax recorded on the books as follows:

	For the years ended December 31,		
	1990	1989	1988
		(thousands of dollars)	
Book Income Before Federal Income Tax	$435,324	$528,065	$ 6,701
Tax on Book Income at Statutory Rate	$148,010	$179,542	$ 2,278
Increase (Decrease) in Tax:			
Accelerated depreciation	6,287	10,415	6,829
Investment tax credits on disallowed nuclear plant	(37,522)	—	—
Organization costs	—	—	5,617
Taxes, other than federal income taxes	(12,116)	(107)	2,090
Other items	4,365	5,712	(5,642)
Total Federal Income Tax Expense	$109,024	$195,562	$ 11,172

Federal income tax expense is recorded in the Income Statement as follows:

	For the years ended December 31, 1990	1989	1988
	(thousands of dollars)		
Operating Expenses:			
Current Tax Provision	$ 42,[illegible]85	$ 51,869	$ 79,520
Changes in Accumulated Deferred Federal Income Tax:			
Accelerated depreciation and amortization	1,777	44,144	26,168
Alternative minimum tax credit	(24,340)	(12,874)	—
Sale and leaseback transactions and amortization	8,617	4,348	13,588
Property tax expense	(14,891)	—	(12,127)
Deferred CWIP revenues	20,486	22,731	(8,453)
Deferred fuel costs	742	(4,384)	16,227
System dnvelopment costs	651	555	9,157
Davis-Besse replacement power	—	9,191	15,291
Federal income tax return adjustments	—	—	(19,621)
Reacquired debt costs	1,355	(1,250)	3,774
Deferred operating expenses	2,454	1,021	14,913
Net operating loss carryforward	—	—	(2,545)
Other items	13,889	5,254	(8,508)
Investment Tax Credits	2,651	1,780	(3,687)
Total Charged to Operating Expenses	96,076	122,385	123,697
Nonoperating Income:			
Current Tax Provision	(42,256)	(39,341)	(46,432)
Changes in Accumulated Deferred Federal Income Tax:			
Davis-Besse replacement power	—	—	5,724
Write-off of nuclear costs	(22,143)	—	(188,920)
AFUDC and carrying charges	74,447	114,300	133,637
Taxes, other than federal income taxes	—	—	5,520
Net operating loss carryforward	—	—	(36,831)
Other items	2,900	(1,782)	(3,952)
Total Expense (Credit) to Non-operating Income	12,948	73,177	(131,254)
Federal Income Tax Included in Cumulative Effect of an Accounting Change for Unbilled Revenues	—	—	18,729
Total Federal Income Tax Expense	$109,024	$195,562	$ 11,172

In 1988, a change was made in accounting for income taxes from the deferred to the liability method. This change did not impact net income as the additional deferred taxes recorded were offset by a regulatory asset on the Balance Sheet.

Federal income tax expense adjustments in 1990, associated with previously deferred investment tax credits relating to the 1988 write-off of nuclear plant investments, decreased the net tax provision related to nonoperating income by $37,522,000 and increased earnings per share by $.27.

The favorable resolution of an issue concerning the appropriate year to recognize a property tax deduction resulted in an adjustment which reduced federal income tax expense in 1990 by $14,011,000 ($10,375,000 in the fourth quarter) and increased earnings per share by $.10 ($.07 in the fourth quarter).

For tax purposes, net operating loss (NOL) carryforwards of approximately $74,627,000, $71,532,000 and $327,852,000 were generated in 1990, 1989 and 1988, respectively. The NOL carryforwards are available to reduce future taxable income and will expire in 2003 through 2005. The 34% tax effect of the NOLs generated in 1990 ($25,373,000) and 1989 ($24,321,000) is included in the above table as a reduction to deferred federal income tax relating to accelerated depreciation and amortization. The 34% tax effect of the NOL generated in 1988 ($111,470,000) is included in the above table as reductions to deferred federal income tax relating to accelerated depreciation and amortization ($72,094,000) and to deferred federal income tax charged to operating expenses ($2,545,000) and to nonoperating income ($36,831,000). Future utilization of these tax NOL carryforwards would result in recording the related deferred taxes.

Approximately $31,665,000 of unused general business tax credits are available to reduce future tax obligations. The unused credits expire in varying amounts in 2001 through 2005. Utilization of these unused credits is limited by provisions of the 1986 Tax Act and the level of future taxable income to which such credits may be applied.

The 1986 Tax Act provides for an AMT credit to be used to reduce the regular tax to the AMT level should the regular tax exceed the AMT. AMT credits of $24,340,000 and $12,874,000 were generated in 1990 and 1989, respectively.

(8) RETIREMENT INCOME PLANS AND OTHER POSTRETIREMENT BENEFITS

We sponsor noncontributing pension plans which cover all employee groups. The amount of retirement benefits generally depends upon the length of service. Under certain circumstances, benefits can begin as early as age 55. The plans also provide certain death, medical and disability benefits. Our funding policy is to comply with the Employee Retirement Income Security Act of 1974 guidelines.

During 1990, we offered our second Voluntary Early Retirement Opportunity Program (VEROP). Operating expenses for 1990 included $15,000,000 of pension plan accruals to cover enhanced VEROP benefits plus an additional $28,000,000 of pension costs for VEROP benefits being paid to retirees from corporate funds. The $28,000,000 is not included in the pension data reported below. Operating expenses for 1990 also included a credit of $41,000,000 resulting from a settlement of pension obligations through lump sum payments to a substantial number of VEROP retirees. Net pension and VEROP costs (credits) for 1988 through 1990 were comprised of the following components:

	1990	1989	1988
	(millions of dollars)		
Pension Costs (Credits):			
Service cost for benefits earned during the period	$ 15	$ 14	$ 12
Interest cost on projected benefit obligation	37	35	33
Actual return on plan assets	(8)	(73)	(76)
Net amortization and deferral	(52)	13	19
Net pension credits	(8)	(11)	(12)
VEROP cost	15	—	6
Settlement gain	(41)	—	—
Net credits	$(34)	$(11)	$ (6)

The following table presents a reconciliation of the funded status of the plans at December 31, 1990 and 1989.

	December 31,	
	1990	1989
	(millions of dollars)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 330	$ 328
Nonvested benefits	24	28
Accumulated benefit obligation	354	356
Effect of future compensation levels	72	117
Total projected benefit obligation	426	473
Plan assets at fair market value	653	761
Surplus of plan assets over projected benefit obligation	227	288
Unrecognized net gain due to variance between assumptions and experience	(88)	(163)
Unrecognized prior service cost	13	8
Transition asset at January 1, 1987 being amortized over 19 years	(126)	(141)
Net prepaid (accrued) pension cost included in other deferred charges (credits) on the Balance Sheet	$ 26	$ (8)

The settlement (discount) rate assumption was 8.5% for December 31, 1990 and 8% for December 31, 1989. The long-term rate of annual compensation increase assumption was 5% for both December 31, 1990 and December 31, 1989. The long-term rate of return on plan assets assumption was 8% in 1990 and 1989.

Plan assets consist primarily of investments in common stock, bonds, guaranteed investment contracts, cash equivalent securities and real estate.

The cost of postretirement medical benefits amounted to $6,500,000 in 1990, $5,000,000 in 1989 and $3,800,000 in 1988. Consistent with current ratemaking practices, these costs are recorded when paid.

In December 1990, a new accounting standard for postretirement benefits other than pensions was issued. This standard requires employers to accrue the expected cost of such benefits during the employees' years of service. The standard also requires the recording of a cumulative transition obligation adjustment which can be recognized immediately, subject to certain limitations, or amortized over the longer of 20 years or the average remaining service period of active employees expected to receive benefits. We are required to adopt the new standard no later than 1993. Although we have not completed an analysis to determine the effect of adopting the new standard, we do not expect adoption to have a material adverse effect on our financial condition or results of operations because of expected future regulatory treatment. Any liabilities recorded pursuant to the standard may be essentially offset by regulatory assets to reflect anticipated future revenues associated with recovery through rates.

(9) GUARANTEES

Under two long-term coal purchase arrangements, Cleveland Electric has guaranteed certain loan and lease obligations of two mining companies. Toledo Edison is also a party to one of these guarantee arrangements. This arrangement requires payments to the mining company for any actual out-of-pocket idle mine expenses (as advance payments for coal) when the mines are idle for reasons beyond the control of the mining company. At December 31, 1990, the principal amount of the mining companies' loan and lease obligations guaranteed by the Operating Companies was $109,000,000.

(10) CAPITALIZATION

(a) CAPITAL STOCK TRANSACTIONS

Shares sold, retired and purchased for treasury during the three years ended December 31, 1990 are listed in the following table.

	1990	1989	1988
	(thousands of shares)		
Common Stock:			
Employee Savings Plan	—	—	7
Employee Purchase Plan	—	36	82
1978 Key Employee Stock Option Plan	—	17	27
Total Common Stock Sales	—	53	116
Treasury Shares	(1,391)	(1,082)	(2)
Net Change	(1,391)	(1,029)	114
Cumulative Preferred and Preference Stock of Subsidiaries Subject to Mandatory Redemption:			
Cleveland Electric Retirements			
Preferred:			
$ 7.35 Series C	(10)	(10)	(10)
88.00 Series E	(3)	(3)	(3)
75.00 Series F	—	(1)	(14)
80.00 Series G	(1)	(2)	(5)
145.00 Series H	(14)	(4)	(4)
145.00 Series I	(4)	(4)	(4)
Preference:			
$ 77.50 Series 1	—	(6)	(7)
Toledo Edison Retirements			
Preferred:			
$100 par $11.00	(10)	(5)	(5)
9.375	(17)	(17)	(17)
Total	(59)	(52)	(69)
Cumulative Preferred Stock of Subsidiaries Not Subject to Mandatory Redemption:			
Toledo Edison Retirements			
$25 par 3.47	—	—	(1,200)
Total	—	—	(1,200)

Shares of common stock required for the Employee Savings Plan and the Employee Purchase Plan are being acquired in the open market.

Centerior Energy began a program in 1989 to purchase up to 3,000,000 shares of its common stock at prevailing prices in the open market in the period between March 28, 1989 and March 31, 1991. As of December 31, 1990, 2,510,000 shares had been purchased at a total cost of $46,198,000. Such shares are being held as treasury shares.

(b) COMMON SHARES RESERVED FOR ISSUE

Common shares reserved for issue under the Employee Savings Plan and the Employee Purchase Plan were 3,176,727 and 21,448 shares, respectively, at December 31, 1990.

Stock options to purchase unissued shares of common stock under the 1978 Key Employee Stock Option Plan were granted at an exercise price of 100% of the fair market value at the date of the grant. No additional options may be granted. The exercise prices of option shares purchased during the three years ended December 31, 1990 ranged from $14.09 to $17.41 per share. Shares and price ranges of outstanding options held by employees were as follows:

	1978 Key Employee Stock Option Plan		
	1990	1989	1988
Options Outstanding at December 31:			
Shares	168,655	215,187	314,693
Option Prices	$14.09 to $20.73	$14.09 to $20.73	$14.09 to $20.73

(c) EQUITY DISTRIBUTION RESTRICTIONS

At December 31, 1990, consolidated retained earnings were comprised almost entirely of the undistributed retained earnings of the Operating Companies. Substantially all of their retained earnings were available for the declaration of dividends on their respective preferred and common shares. All of their common shares are held by Centerior Energy.

Any financing by an Operating Company of any of its nonutility affiliates requires PUCO authorization unless the financing is made in connection with transactions in the ordinary course of the companies' public utilities business operations in which one company acts on behalf of another.

(d) CUMULATIVE PREFERRED AND PREFERENCE STOCK

Amounts to be paid for preferred stock which must be redeemed during the next five years are $28,000,000 in 1991, $18,000,000 in 1992 and $43,000,000 in each year 1993 through 1995.

The annual mandatory redemption provisions are as follows:

	Annual Mandatory Redemption Provisions		
	Shares To Be Redeemed	Beginning in	Price Per Share
Cleveland Electric			
Preferred:			
$ 7.35 Series C	10,000	1984	$ 100
88.00 Series E	3,000	1981	1,000
75.00 Series F	2,384*	1985	1,000
145.00 Series I	1,969	1986	1,000
113.50 Series K	10,000	1991**	1,000
Adjustable Series M	100,000	1991	100
9.125 Series N	150,000	1993	100
Toledo Edison			
Preferred:			
$100 par $11.00	5,000	1979	100
9.375	16,650	1985	100
25 par 2.81	400,000	1993	25

* Represents remaining shares to be redeemed March 1, 1991.

**All outstanding shares to be redeemed June 1, 1991.

The annualized cumulative preferred dividend requirement as of December 31, 1990 is $60,000,000.

The preferred dividend rates on Cleveland Electric's Series L and M and Toledo Edison's Series A and B fluctuate based on prevailing interest rates, with the dividend rates for these issues averaging 8.38%, 7.71%, 9.06% and 9.84%, respectively, in 1990. The dividend rate on Cleveland Electric's Remarketed Series P averaged 8.01% in 1990.

Under its articles of incorporation, Toledo Edison cannot issue preferred stock unless certain earnings

coverage requirements are met. Based on earnings for the 12 months ended December 31, 1990, Toledo Edison could issue at December 31, 1990 approximately $7,500,000 of additional preferred stock at an assumed dividend rate of 11%. If Perry Unit 2 had been canceled and written off as of December 31, 1990, Toledo Edison would not have been permitted to issue any additional preferred stock. See Note 3(c). The issuance of additional preferred stock in the future will depend on earnings for any 12 consecutive months of the 15 months preceding the date of issuance, the interest on all long-term debt outstanding and the dividends on all preferred stock issues outstanding.

There are no restrictions on Cleveland Electric's ability to issue preferred or preference stock or Toledo Edison's ability to issue preference stock.

With respect to dividend and liquidation rights, each Operating Company's preferred stock is prior to its preference stock and common stock, and each Operating Company's preference stock is prior to its common stock.

(e) LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt, less current maturities, for the Operating Companies was as follows:

Year of Maturity	Actual or Average Interest Rate	December 31, 1990	December 31, 1989
		(thousands of dollars)	
First mortgage bonds:			
1991	8.375%	$ —	$ 35,000
1991	15.00	—	70,000
1991	13.75	—	4,334
1992	15.25	20,000	20,000
1992	10.58	40,000	40,000
1992	13.75	4,334	4,334
1993	3.875	30,000	30,000
1993	8.55	50,000	50,000
1993	13.75	4,334	4,334
1994	4.375	25,000	25,000
1994	13.75	4,334	4,334
1995	10.125	—	36,800
1995	11.25	60,000	60,000
1995	13.75	4,334	4,334
1995	7.00	720	720
1995	7.00	15	15
1995	7.00	15	15
1996-2000	9.35	219,798	219,798
2001-2005	9.08	194,135	194,135
2006-2010	9.08	323,650	323,650
2011-2015	9.38	448,435	533,435
2016-2020	8.92	760,180	592,880
2021-2023	8.09	322,100	322,100
		2,511,384	2,575,218
Term bank loans due 1992-1996	8.71	127,900	130,000
Notes due 1992-1999	9.70	769,430	474,215
Debentures due 1997	11.25	125,000	125,000
Pollution control notes due 1992-2015	9.69	190,860	221,250
Other — net	—	4,663	7,973
Total Long-Term Debt		$3,729,237	$3,533,656

Long-term debt matures during the next five years as follows: $186,000,000 in 1991, $220,000,000 in 1992, $317,000,000 in 1993, $63,000,000 in 1994 and $292,000,000 in 1995.

In 1989 and 1990, Cleveland Electric issued $550,000,000 aggregate principal amount of secured medium-term notes with various maturities ranging from 1993 to 1999 and annual interest rates ranging from 8.95% to 9.8%. The notes are secured by first mortgage bonds.

During 1990, Cleveland Electric arranged to refund in 1992 $78,700,000 principal amount of its First Mortgage Bonds, 13⅛% Series due 2012, which are collateral security for pollution control refunding bonds issued by a public authority. The authority's bonds will be refunded at the same time. To effect the refund of its bonds, the authority entered into a contract with two institutions to deliver in 1992 $78,700,000 aggregate principal amount of its tax-exempt pollution control bonds due December 1, 2013 with an interest rate of 8% at a price of 97.496% for an effective interest cost of 8.25%. The authority's bonds will be secured by $78,700,000 principal amount of Cleveland Electric's First Mortgage Bonds, 8% Series due 2013-B. The proceeds will be used to redeem the authority's outstanding bonds and refund the 13⅛% Series First Mortgage Bonds in July 1992. The PUCO authorized Cleveland Electric to record interest expense equal to a blend of the higher rate on the outstanding bonds with the lower rate on the new bonds for an interest expense reduction of $1,000,000 in 1990 and approximately $6,000,000 total in 1991 and 1992.

The mortgages of Cleveland Electric and Toledo Edison constitute direct first liens on substantially all property owned and franchises held by them. Excluded from the liens, among other things, are cash, securities, accounts receivable, fuel, supplies and, in the case of Toledo Edison, automotive equipment.

Additional first mortgage bonds may be issued by Cleveland Electric under its mortgage on the basis of bondable property additions, cash or substitution for refundable first mortgage bonds. The issuance of additional first mortgage bonds by Cleveland Electric on the basis of property additions is limited by two provisions of its mortgage. One relates to the amount of bondable property available and the other to earnings coverage of interest on the bonds. Under the more restrictive of these provisions (currently, the amount of bondable property available), Cleveland Electric would have been permitted to issue approximately $369,000,000 of bonds based upon available bondable property at December 31, 1990. Cleveland Electric also would have been permitted to issue approximately $159,000,000 of bonds based upon refundable bonds at December 31, 1990. If Perry Unit 2 had been canceled and written off as of December 31, 1990, Cleveland Electric would have been permitted to issue approximately $20,000,000 of bonds based upon available bondable property and approximately $159,000,000 of bonds based upon refundable bonds at December 31, 1990.

The issuance of additional first mortgage bonds by Toledo Edison also is limited by provisions in its mortgage similar to those in Cleveland Electric's mortgage. Under the more restrictive of these provisions (currently, the earnings coverage test),

Toledo Edison would have been permitted to issue approximately $177,000,000 of bonds based upon available bondable property at December 31, 1990. Toledo Edison also would have been permitted to issue approximately $56,000,000 of bonds based upon refundable bonds at December 31, 1990. If Perry Unit 2 had been canceled and written off as of December 31, 1990, the amount of bonds which could have been issued by Toledo Edison would not have changed.

Certain unsecured loan agreements of Toledo Edison contain covenants relating to capitalization ratios, earnings coverage ratios and limitations on secured financing other than through first mortgage bonds or certain other transactions. An agreement relating to a letter of credit issued in connection with the sale and leaseback of Beaver Valley Unit 2 (as amended in 1989) contains several financial covenants affecting Centerior Energy and the Operating Companies. Among these are covenants relating to earnings coverage ratios and capitalization ratios. Centerior Energy and the Operating Companies are in compliance with these covenant provisions. We believe Centerior Energy and the Operating Companies will continue to meet these covenants in the event of a write-off of the Operating Companies' investments in Perry Unit 2, barring unforeseen circumstances.

(11) SHORT-TERM BORROWING ARRANGEMENTS

Our bank credit arrangements at December 31, 1990 were as follows:

	Cleveland Electric	Toledo Edison	Service Company	Total
	(thousands of dollars)			
Bank Lines of Credit	$152,000	$75,550	$8,000	$235,550

There were no borrowings under these bank credit arrangements at December 31, 1990. An additional $5,000,000 line of credit is available to the Service Company under a $30,000,000 Cleveland Electric line of credit, if unused by Cleveland Electric. The $5,000,000 line of credit is included in the Cleveland Electric total.

Short-term borrowing capacity authorized by the PUCO is $300,000,000 for Cleveland Electric and $150,000,000 for Toledo Edison. The Operating Companies have been authorized by the PUCO to borrow from each other on a short-term basis.

Most borrowing arrangements under the Operating Companies' short-term bank lines of credit require a fee of 0.25% per year to be paid on any unused portion of the lines of credit. For those banks without fee requirements, the average daily cash balance in the bank accounts satisfied informal compensating balance arrangements.

At December 31, 1990, Cleveland Electric and Toledo Edison had $87,110,000 and $23,200,000, respectively, of commercial paper outstanding. The commercial paper was backed by at least an equal amount of unused bank lines of credit for both Operating Companies.

The fee for the Service Company's lines of credit is 0.25% per year to be paid on any unused portion of its lines of credit.

No formal short-term borrowing arrangements have been established for Centerior Energy.

(12) CHANGE IN ACCOUNTING FOR UNBILLED REVENUES

Prior to 1988, revenues were recorded in the accounting period during which meters were read. Utility service rendered after monthly meter reading dates through the end of a calendar month (unbilled revenues) became a part of operating revenues in the following month. In January 1988, we adopted a change in accounting for revenues in order to accrue the estimated amount of unbilled revenues at the end of each month.

The adoption of this accounting method increased 1988 net income $3,581,000 (net of $1,845,000 of income taxes) and earnings per share $.03 before the cumulative effect on periods prior to January 1, 1988. The cumulative effect of the change on the periods prior to January 1, 1988 was $28,153,000 (net of $18,729,000 of income taxes), or $.20 per share, and was included in 1988 net income.

(13) **QUARTERLY RESULTS OF OPERATIONS** (UNAUDITED)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1990.

	Quarters Ended			
	March 31,	June 30,	Sept. 30,	Dec. 31,
	(thousands of dollars, except per share amounts)			
1990				
Operating Revenues	$560,594	$577,505	$673,015	$556,561
Operating Income	$116,208	$ 86,782	$171,723	$129,863
Net Income	$ 50,509	$ 54,921	$ 99,749	$ 59,280
Average Common Shares (thousands)	139,486	138,980	138,610	138,441
Earnings Per Common Share	$ .36	$ .40	$ .72	$ .43
Dividends Paid Per Common Share	$ .40	$ .40	$ .40	$ .40
1989				
Operating Revenues	$555,230	$577,303	$637,619	$532,284
Operating Income	$112,968	$129,708	$152,796	$ 36,459
Net Income	$ 67,690	$ 77,807	$108,857	$ 12,532
Average Common Shares (thousands)	140,829	140,752	140,391	139,990
Earnings Per Common Share	$ .48	$ .55	$ .78	$ .09
Dividends Paid Per Common Share	$ .40	$ .40	$ .40	$ .40

Earnings for the quarter ended June 30, 1990 were increased as a result of federal income tax expense adjustments associated with deferred investment tax credits relating to the 1988 write-off of nuclear plant investments. See Note 7. The adjustments increased quarterly earnings by $36,298,000, or $.26 per share.

Earnings for the quarter ended December 31, 1990 were increased as a result of year-end adjustments of $25,790,000 to reduce depreciation expense for the year (see Summary of Significant Accounting Policies), $10,169,000 to increase phase-in carrying charges (see Note 6) and $10,375,000 to reduce federal income tax expense (see Note 7). The total of these adjustments increased quarterly earnings by $35,000,000, or $.25 per share.

Executives Of Centerior Energy Corporation And Centerior Service Company

CENTERIOR ENERGY CORPORATION

Chairman and Chief Executive Officer	**Richard A. Miller**
President and Chief Operating Officer	**Robert J. Farling**
Executive Vice President	**Murray R. Edelman**
Executive Vice President	**Edgar H. Maugans**
Executive Vice President	**Lyman C. Phillips**
Vice President–Legal & Corporate Affairs	**Fred J. Lange, Jr.**
Controller	**Paul G. Busby**
Treasurer	**Gary M. Hawkinson**
Secretary	**E. Lyle Pepin**

CENTERIOR SERVICE COMPANY

Chairman and Chief Executive Officer	**Richard A. Miller**
President and Chief Operating Officer	**Robert J. Farling**
Executive Vice President–Power Generation	**Murray R. Edelman**
Executive Vice President–Finance & Administration	**Edgar H. Maugans**
Executive Vice President–Customer Operations (and Chairman & CEO of Toledo Edison and President & CEO of Cleveland Electric)	**Lyman C. Phillips**
Vice President–Fossil Operations	**Richard P. Crouse**
Vice President–Transmission and Distribution Engineering & Services	**Gary J. Greben**
Vice President–Customer Service & Community Affairs	**Jacquita K. Hauserman**
Vice President–System Engineering & Control	**Alvin Kaplan**
Vice President–Legal & Corporate Affairs	**Fred J. Lange, Jr.**
Vice President–Human Resources & Strategic Planning	**John S. Levicki**
Vice President–Nuclear-Perry	**Michael D. Lyster**
Vice President–Transmission & Distribution Operations	**David L. Monseau**
Vice President–Marketing	**Thomas M. Quinn**
Vice President (and President of Toledo Edison)	**Donald H. Saunders**
Vice President–Nuclear-Davis-Besse	**Donald C. Shelton**
Controller	**Paul G. Busby**
Treasurer	**Gary M. Hawkinson**
Secretary	**E. Lyle Pepin**

Financial and Statistical Review

Operating Revenues (thousands of dollars)

Year	Residential	Commercial	Industrial	Other	Total Retail	Wholesale	Total Electric	Steam Heating & Gas	Total Operating Revenues
1990	**$719 078**	**$668 910**	**$779 391**	**$189 754**	**$2 357 133**	**$ 10 542**	**$2 367 675**	**$ —**	**$2 367 675**
1989	685 735	616 902	746 534	204 769	2 253 940	48 496	2 302 436	—	2 302 436
1988	637 329	537 861	675 584	84 524	1 935 298	102 262	2 037 560	—	2 037 560
1987	629 663	531 682	689 959	36 272	1 887 576	24 409	1 911 985	13 371	1 925 356
1986	599 445	516 614	675 682	79 716	1 871 457	11 381	1 882 838	12 953	1 895 791
1980	394 872	301 513	461 624	53 633	1 211 642	36 966	1 248 608	22 047	1 270 655

Operating Expenses (thousands of dollars)

Year	Fuel & Purchased Power	Other Operation & Maintenance	Depreciation & Amortization	Taxes Other Than FIT	Phase-in & Pre-phase-in Deferred, Net	Federal Income Taxes	Total Operating Expenses
1990	**$412 531**	**$862 738**	**$251 640**	**$283 425**	**$ (43 311)**	**$ 96 076**	**$1 863 099**
1989	413 816	860 138	280 918	259 871	(66 623)	122 385	1 870 505
1988	391 401	865 632	264 824	268 550	(188 209)	123 697	1 725 895
1987	470 466	642 594	214 421	207 521	(87 623)	105 912	1 553 291
1986	522 281	550 874	141 009	194 925	—	138 181	1 547 270
1980	490 659	280 722	90 621	112 832	—	64 950	1 039 784

Income (Loss) (thousands of dollars)

Year	Operating Income	AFUDC—Equity	Other Income & Deductions, Net	Carrying Charges	Federal Income Taxes—Credit (Expense)	Income Before Interest Charges	Debt Interest	AFUDC—Debt	Income (Loss) After Interest Charges
1990	**$504 576**	**$ 7 883**	**$ (11)**	**$205 085**	**$(12 948)**	**$704 585**	**$384 278**	**$ (5 993)**	**$326 300**
1989	431 931	16 930	14 212	299 159	(73 177)	689 055	369 481	(12 929)	332 503
1988	311 665	13 504	(489 047) **(a)**	372 155	131 254	339 531	378 292	(6 137)	(32 624)
1987	372 065	299 308	(57 821)	39 599	121 122	774 273	435 042	(137 257)	476 488
1986	348 521	308 405	(8 108)	—	116 422	765 240	406 465	(118 145)	476 920
1980	230 871	69 316	8 484	—	27 180	335 851	183 489	(40 199)	192 561

Income (Loss) (thousands of dollars) / Common Stock (dollars per share & %)

Year	Preferred & Preference Stock Dividends	Income (Loss) Before Cumulative Effect of an Accounting Change	Cumulative Effect of an Accounting Change **(b)**	Net Income (Loss)	Average Shares Outstanding **(c)** (thousands)	Earnings (Loss) **(c)**	Return on Average Common Stock Equity	Dividends Declared **(c)**	Book Value **(c)**
1990	**$61 841**	**$ 264 459**	**$ —**	**$264 459**	**138 885**	**$ 1.90**	**9.4%**	**$1.60**	**$20.30**
1989	65 617	266 886	—	266 886	140 468	1.90	9.6	1.60	19.99
1988	69 489	(102 113)	28 153	(73 960)	140 778	(0.53)	(2.5)	1.84	19.68
1987	86 135	390 353	—	390 353	138 395	2.82	12.8	2.56	22.10
1986	85 027	391 893	—	391 893	128 927	3.04	13.7	2.49	22.13
1980	45 732	146 829	—	146 829	67 185	2.19	11.2	1.92	19.37

NOTE: 1980 data is the result of combining and restating Cleveland Electric and Toledo Edison data.

(a) Includes write-off of nuclear costs in the amount of $534,355,000 in 1988.

(b) In 1988, the Operating Companies adopted a change in the method of accounting for unbilled revenues.

(c) Outstanding shares for the periods prior to April 29, 1986 reflect the Cleveland Electric 1.11-for-one exchange ratio and the Toledo Edison one-for-one exchange ratio for Centerior Energy shares.

	Electric Sales (millions of KWH)						Electric Customers (year end)				Residential Usage		
Year	Residential	Commercial	Industrial	Wholesale	Other	Total	Residential	Commercial	Industrial & Other	Total	Average KWH Per Customer	Average Price Per KWH	Average Revenue Per Customer
1990	**6 666**	**6 648**	**12 168**	**148**	**959**	**26 789**	**918 965**	**94 522**	**12 906**	**1 026 393**	**7 079**	**10.82¢**	**$765.93**
1989	6 806	6 830	12 520	429	996	27 581	914 020	93 833	12 763	1 020 616	7 295	10.08	737.58
1988	6 920	6 577	12 793	863	946	28 099	909 182	92 132	12 305	1 013 619	7 462	9.21	690.06
1987	6 659	6 350	11 985	399	949	26 342	903 365	90 148	12 240	1 005 753	7 217	9.46	685.43
1986	6 527	6 239	11 409	242	909	25 326	898 583	87 947	12 012	998 542	7 108	9.18	654.99
1980	6 434	5 431	11 327	1 630	626	25 548	882 987	83 602	11 460	978 049	7 111	6.16	437.98

	Load (MW & %)				Energy (millions of KWH)					Fuel	
					Company Generated						
Year	Operable Capacity at Time of Peak	Peak Load	Capacity Margin	Load Factor	Fossil	Nuclear	Total	Net Purchased Power	Total	Fuel Cost Per KWH	Efficiency-BTU Per KWH
1990	**6 437**	**5 261**	**18.3%**	**63.6%**	**21 114**	**9 481**	**30 595**	**(1 926)**	**28 669**	**1.52¢**	**10 354**
1989	6 430	5 389	16.2	63.3	20 174	12 122	32 296	(2 785)	29 511	1.47	10 435
1988	5 525**(d)**	5 673	(2.7)	60.8	21 576	7 805	29 381	920	30 301	1.59	10 410
1987	5 955	5 173	13.1	63.6	20 894	6 907	27 801	601	28 402	1.53	10 466
1986	5 199**(d)**	5 021	3.4	63.0	22 739	24	22 763	4 552	27 315	1.79	10 292
1980	6 113	4 635	24.2	64.3	20 015	2 114	22 129	5 246	27 375	1.66	10 519

Investment (thousands of dollars)

Year	Utility Plant In Service	Accumulated Depreciation & Amortization	Net Plant	Construction Work In Progress & Perry Unit 2	Nuclear Fuel and Other	Total Property, Plant and Equipment	Utility Plant Additions	Total Assets
1990	**$8 648 888**	**$2 056 244**	**$6 592 644**	**$1 133 535**	**$568 124**	**$8 294 303**	**$ 251 312**	**$11 894 235**
1989	8 411 116	1 831 767	6 579 349	1 157 273	591 692	8 328 314	230 797	11 666 547
1988	8 143 673	1 569 304	6 574 369	1 222 732	643 087	8 440 188	343 143	11 573 098
1987	8 388 114	1 324 446	7 063 668	1 007 707	656 350	8 727 725	947 921	11 349 836
1986	4 639 542	1 367 662	3 271 880	5 237 782	652 564	9 162 226	1 133 748	10 011 932
1980	3 602 029	778 488	2 823 541	1 331 323	89 683**(e)**	4 244 547	633 999	4 827 944

Capitalization (thousands of dollars & %)

Year	Common Stock Equity		Preferred & Preference Stock, with Mandatory Redemption Provisions		Preferred Stock, without Mandatory Redemption Provisions		Long-Term Debt		Total
1990	**$2 810 033**	**39%**	**$237 490**	**3%**	**$427 334**	**6%**	**$3 729 237**	**52%**	**$7 204 094**
1989	2 794 572	40	281 352	4	427 334	6	3 533 656	50	7 036 914
1988	2 771 744	39	303 781	4	427 334	6	3 551 614	51	7 054 473
1987	3 109 060	41	343 985	4	457 334	6	3 718 249	49	7 628 628
1986	2 991 341	39	487 814	7	404 021	5	3 792 402	49	7 675 578
1980	1 385 229	36	327 000	8	245 071	6	1 925 934	50	3 883 234

(d) Capacity data reflect extended generating unit outages for renovation and improvements.

(e) Restated for effects of capitalization of nuclear fuel lease and financing arrangements pursuant to Statement of Financial Accounting Standards 71.

Board Of Directors

Richard P. Anderson, President and Chief Executive Officer of The Andersons Management Corporation, a grain, farm supply and retailing firm.

Albert C. Bersticker, President and Chief Operating Officer of Ferro Corporation, a producer of specialty chemical materials for manufactured products.

Leigh Carter, Retired President and Chief Operating Officer of The BFGoodrich Company, a producer of chemicals, plastics and aerospace products. Chairman of Tremco, Incorporated, a manufacturer of specialty chemical products and a wholly owned subsidiary of The BFGoodrich Company.

Thomas A. Commes, President and Chief Operating Officer of The Sherwin-Williams Company, a manufacturer of paints and painting supplies.

Wayne R. Embry, Executive Vice President and General Manager of the Cleveland Cavaliers, a professional basketball team. Chairman of Michael Alan Lewis Company, a fabricator of hardboard, fiberglass and carpeting materials for the automotive industry.

Robert J. Farling, President and Chief Operating Officer of the Company and Centerior Service Company.

Robert M. Ginn, Executive in Residence at John Carroll University. Also Chairman Emeritus of the Company and retired Chairman and Chief Executive Officer of the Company.

Roy H. Holdt, Retired Chairman of White Consolidated Industries, Inc., a manufacturer of products for the home, principally major appliances, and machinery and equipment for industry.

George H. Kaull, Chairman and Chief Executive Officer of Premix, Inc., a developer, manufacturer and fabricator of thermoset reinforced composite materials.

Richard A. Miller, Chairman and Chief Executive Officer of the Company and Centerior Service Company.

Frank E. Mosier, Vice Chairman of BP America Inc., a producer and refiner of petroleum products.

Sister Mary Marthe Reinhard, SND, Director of Development for the Sisters of Notre Dame of Cleveland, Ohio. Former President of Notre Dame College of Ohio.

Robert C. Savage, President of Savage & Associates, Inc., an insurance, financial planning and estate planning firm.

Paul M. Smart, Retired Vice Chairman of the Company and The Toledo Edison Company.

William J. Williams, Chairman and Chief Executive Officer of Huntington National Bank.

John P. Williamson, Chairman Emeritus

Committees Of The Board

Audit	Capital Expenditures	Executive	Finance	Human Resources	Nominating	Nuclear
T.A. Commes, Chairman	G.H. Kaull, Chairman	R.A. Miller, Chairman	R.A. Miller, Chairman	W.J. Williams, Chairman	F.E. Mosier, Chairman	R.P. Anderson, Chairman
L. Carter	A.C. Bersticker	R.M. Ginn	R.P. Anderson	L. Carter	R.P. Anderson	A.C. Bersticker
Sr. M.M. Reinhard	R.J. Farling	R.H. Holdt	T.A. Commes	R.H. Holdt	A.C. Bersticker	R.J. Farling
W.J. Williams	R. M. Ginn	W.J. Williams	R.J. Farling	G.H. Kaull	L. Carter	R.M. Ginn
	R.A. Miller		R.H. Holdt	F.E. Mosier	T.A. Commes	R.H. Holdt
	F.E. Mosier		R.C. Savage		W.R. Embry	R.A. Miller
	Sr. M.M. Reinhard		P.M. Smart		R.M. Ginn	Sr. M.M. Reinhard
					R.H. Holdt	
					G.H. Kaull	
					R.A. Miller	
					Sr. M.M. Reinhard	
					R.C. Savage	
					P.M. Smart	
					W.J. Williams	

Share Owner Information

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN AND INDIVIDUAL RETIREMENT ACCOUNT (CX•IRA)

The Company has a Dividend Reinvestment and Stock Purchase Plan which provides share owners of record and customers of the Company's subsidiaries a convenient means of purchasing shares of Company common stock by investing a part or all of their quarterly dividends as well as making cash investments. In addition, individuals may establish an individual retirement account (IRA) which invests in Company common stock through the Plan. Information relating to the Plan and the CX•IRA may be obtained from Share Owner Services at the Company.

SHARE OWNER SERVICES

Communications regarding stock transfer requirements, lost certificates, dividends and changes of address should be directed to Share Owner Services at the Company. To reach Share Owner Services by phone, call:

In Cleveland area 642-6900 or 447-2400

Outside Cleveland area 1-800-433-7794

Please have your account number ready when calling.

INVESTOR RELATIONS

Inquiries from security analysts and institutional investors should be directed to Terrence R. Moran, Manager-Investor Relations, at the Company's mail address or by telephone at (216) 447-2882.

TRANSFER AGENT

Centerior Energy Corporation
Share Owner Services
P.O. Box 94661
Cleveland, Ohio 44101-4661

Stock transfers may be presented at
PNC Trust Company of New York
40 Broad Street, Fifth Floor
New York, N.Y. 10004

EXECUTIVE OFFICES

Centerior Energy Corporation
6200 Oak Tree Boulevard
Independence, Ohio
Telephone: (216) 447-3100
FAX: (216) 447-3240

MAIL ADDRESS

Centerior Energy Corporation
P.O. Box 94661
Cleveland, Ohio 44101-4661

REGISTRAR

Ameritrust Company National Association
Corporate Trust Division
P.O. Box 6477
Cleveland, Ohio 44101

CX•IRA CUSTODIAN

All communications about an existing CX•IRA should be directed to the Custodian at the address or telephone numbers listed below:

Ameritrust Company National Association
Corporate Trust Division
P.O. Box 6477
Cleveland, Ohio 44101

In Cleveland area 737-5742 or 737-5744

Elsewhere in Ohio
1-800-362-0697, Extension 5742

Outside Ohio
1-800-321-1355, Extension 5742

INDEPENDENT ACCOUNTANTS

Arthur Andersen & Co.
1717 East Ninth Street
Cleveland, Ohio 44114

COMMON STOCK

Listed on the New York, Midwest and Pacific Stock Exchanges. Options are traded on The Pacific Stock Exchange. New York Stock Exchange symbol—CX. Newspaper abbreviation—CentEn or CentrEngy.

ANNUAL MEETING

The annual meeting of the share owners of the Company will be held April 23, 1991. Owners of common stock as of February 26, 1991, the record date for the meeting, will be eligible to vote on matters brought up for share owners' consideration.

FORM 10-K

The Company will furnish to share owners, without charge, a copy of its most recent annual report to the Securities and Exchange Commission (Form 10-K) and, upon payment of a reasonable fee, a copy of each exhibit to Form 10-K. Requests should be directed to the Secretary of the Company.

AUDIO CASSETTES AVAILABLE

Share owners with impaired vision may obtain audio cassettes of the Company's Quarterly Reports and Annual Report. To obtain a cassette, simply write or call Share Owner Services. There is no charge for this service.

Centerior Energy Corporation
P.O. Box 94661
Cleveland, OH 44101-4661